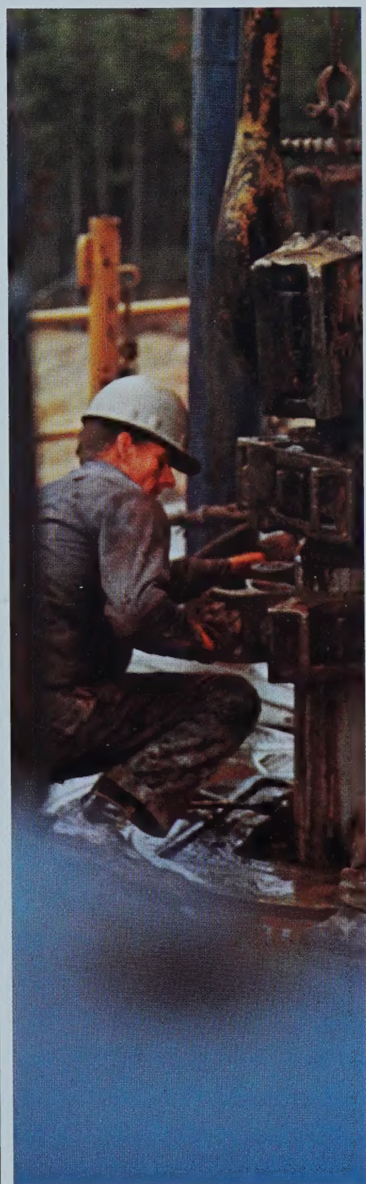
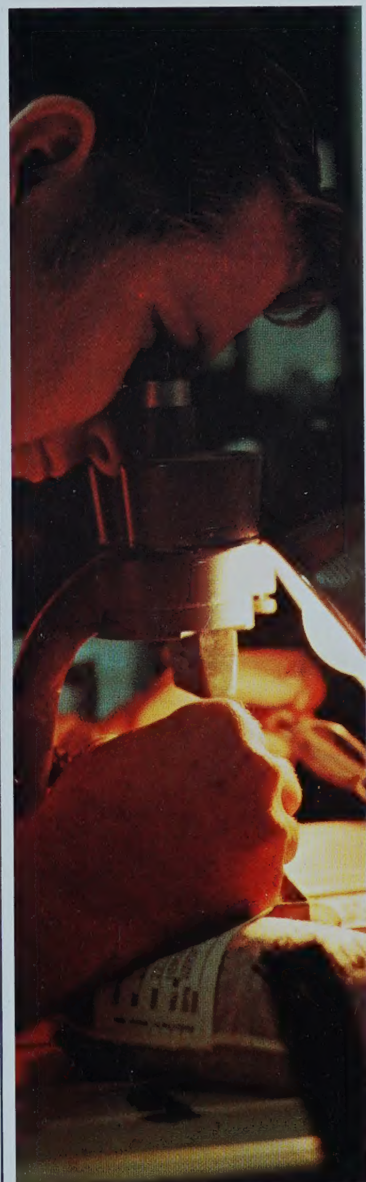
MURPHY
OIL CORPORATION

1970 ANNUAL REPORT


The Cover

Some of the people at work for Murphy Oil Corporation include a refinery worker, a member of a drilling crew, a geologist and a service station attendant.

Murphy Oil Corporation
200 Jefferson Avenue
El Dorado, Arkansas 71730

1970 Annual Report

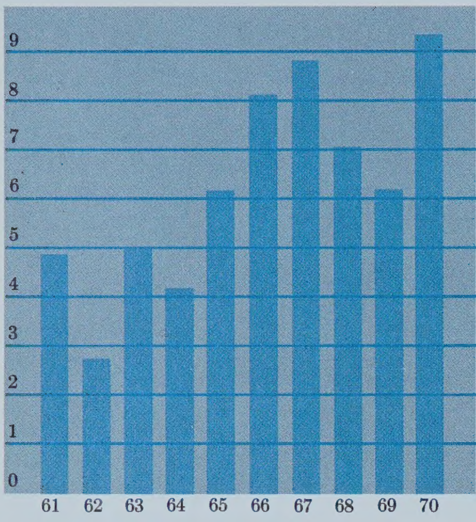
In the service station or the office, in the oil field or the soybean field, in the refinery or the sawmill, the people of Murphy Oil Corporation and its subsidiaries have made possible the results reported in this book. The financial pages of this Annual Report indicate record results. The photographs invite your attention to the people who are the Company's most vital asset.

Contents

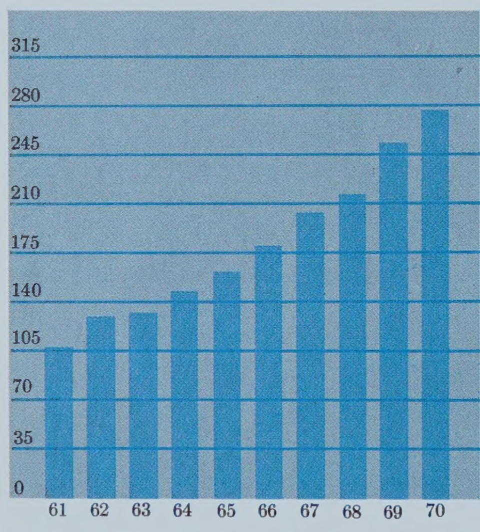
HIGHLIGHTS

	1970	1969
FINANCIAL		
Revenues	**$277,564,000**	251,996,000
Income before extraordinary items	**9,337,000**	6,228,000
Per share	**1.81**	1.10
Net income	**9,408,000**	6,631,000
Per share	**1.83**	1.19
Cash flow	**33,219,000**	24,909,000
Dividends paid:		
Preferred and Preference Stock	**1,124,000**	1,134,000
Common Stock	**2,722,000**	2,730,000
Common Stock dividends per share	**0.60**	0.60
Capital expenditures	**80,564,000**	41,321,000
Depreciation and depletion	**17,167,000**	14,303,000
Working capital	**53,849,000**	69,769,000
Long-term debt	**123,605,000**	103,998,000
Total assets	**399,220,000**	343,914,000
Stockholders' equity	**142,680,000**	137,549,000
STOCKHOLDERS AND EMPLOYEES		
Common stockholders—end of year	**5,348**	5,203
Common and Common equivalent shares—average outstanding	**4,538,424**	4,616,638
Employees—end of year	**3,292**	3,635
Salaries, wages and benefits	**$ 29,396,000**	27,020,000
OPERATING (Barrels a day except gas)		
Crude oil and gas liquids produced	**43,200**	37,400
Gas sold (thousand cubic feet a day)	**61,700**	60,300
Refinery runs	**59,600**	56,600
Petroleum products sold	**116,300**	104,400

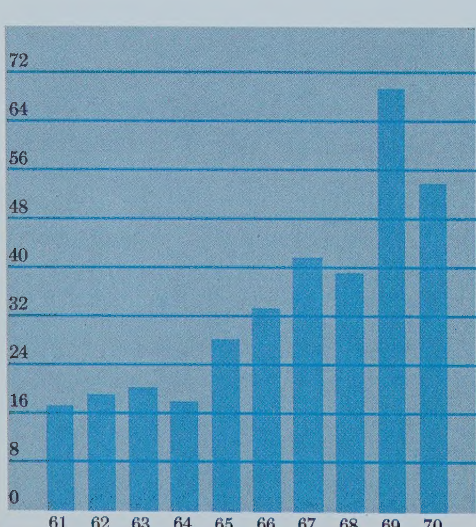
Cash flow is net income plus depreciation and depletion, amortization of undeveloped acreage costs, geophysical expense, dry hole contributions, dry holes, abandonments and deferred and noncurrent income taxes; minority interests are eliminated.



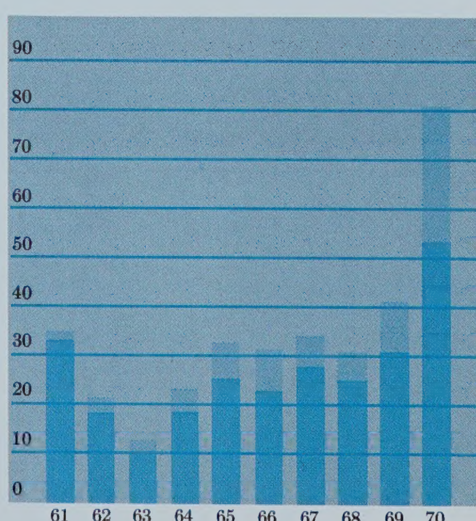
CONSOLIDATED INCOME BEFORE EXTRAORDINARY ITEMS (millions of dollars)



GROSS REVENUES (millions of dollars)

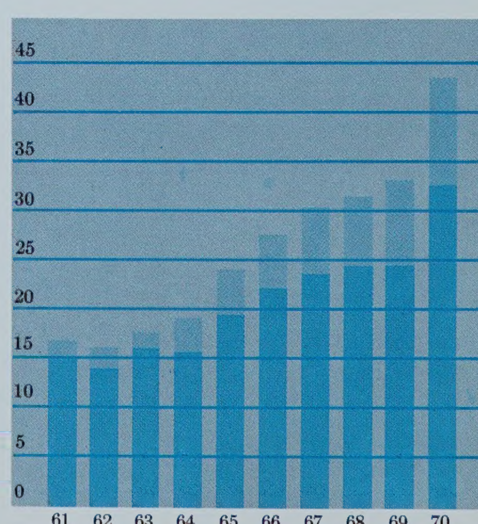


WORKING CAPITAL (millions of dollars)



CAPITAL EXPENDITURES (millions of dollars)

Minority Interest



CASH FLOW (millions of dollars)

Minority Interest

TO THE STOCKHOLDERS

The year 1970 brought a brisk recovery from the disappointing results of 1969.

Crude oil production, refinery runs and refined product sales rose to record levels. A worldwide trend toward higher prices for refined products began in Europe in the second quarter and extended gradually to our markets in Canada and in the United States. Ocean Drilling & Exploration Company, 51-percent owned by Murphy and consolidated in the financial statements, expanded its fleet of offshore drilling barges, and the enlarged fleet enjoyed substantially full employment. Taken together, these elements lifted gross revenues well above the quarter-billion-dollar level.

Almost half of the crude oil supplied to the five points at which Murphy operates refineries or hires capacity from others is transported by tankers. A year ago, we acknowledged having misjudged the supply and demand balance in the world tanker fleet and told of measures that were being taken to correct the error. Period charters and contracts of affreightment that were negotiated as a part of those measures began taking effect early in 1970 and, as a result, the average cost of ocean transportation was lower than in 1969. This saving aided the increased revenues in overcoming the effect of higher taxes and inflating costs to account for the improvement in earnings.

Murphy Oil Corporation produces crude oil in five countries. All but Canada collected higher taxes on income during 1970. The costs of manpower, materials and supplies continued their slow, relentless rise, a consequence of the inflation that persists despite a general business slowdown. Exploration costs were higher than in 1969 by $1,500,000 as the search for new oil and gas reserves, the lifeblood of our Company, received still further emphasis.

We are long-term borrowers and, as a matter of business strategy, carry a higher ratio of debt to equity than do most oil companies. Nevertheless, the high interest rates which were such a noteworthy feature of the business scene in 1970 were not particularly harmful to us. Working capital built up by borrowings prior to the "credit crunch" and the rapid generation of cash by the business enabled us not only to slow down borrowing until interest rates passed their peak but to actually benefit by investing temporary cash surpluses at the higher rates.

Capital expenditures rose substantially in 1970. Production and exploration expenditures were higher due to purchase of an additional interest in an important producing property and successful bidding for undeveloped acreage offshore Louisiana. A major portion of the increase in capital expenditures was for acquisition and construction of offshore drilling barges. One new barge was completed early in 1971, and another one which was acquired while under construction will be completed by mid-year. Three drilling barges and a platform rig were acquired from another company. Capital expenditures for 1971 are projected to decrease from the 1970 level.

A potentially important oil discovery was made during 1970 on our jointly owned Concession 104-A in Libya. Several oil and gas discoveries or extensions to previously known producing reservoirs were made offshore Louisiana and Texas. Development of greatly enlarged holdings in the heavy crude oil producing region of Saskatchewan, Canada was commenced. Exploration continued in the North Sea, offshore New Zealand and in the Jurassic trend of Mississippi and Alabama and was begun in the Arctic islands and offshore in the Maritime Provinces of Canada.

Operations in Europe suffered a setback when our carefully prepared and long-pending application to build a refinery in Scotland was denied on grounds that it might adversely affect the environment. The prolongation by the authorities of the decision-making process was as disappointing and costly as was the final outcome itself. An alternative plan to build a refinery jointly with Ente Nazionale Idrocarburi (ENI), the Italian state-owned oil company, near the outer approaches to the Port of London is currently being actively pursued.

The Company's North American transportation facilities were strengthened by completion of a refined products pipeline linking the refinery near New Orleans more directly with interior markets in the Southeast, by completion of a crude oil pipeline from South Pelto-Ship Shoal to shore and by commencement of a pipeline to transport crude oil from the Lone Rock, Saskatchewan area to the Interprovincial trunkline for transshipment to the refinery at the head of the Great Lakes.

The worldwide acceleration in demand for liquid petroleum recieved prominent attention at Murphy's 1970 annual meeting. Oil has three formidable competitors in the overall fuel market—natural gas, coal and nuclear energy. Demand for gas outstrips supply in the United States because government control of prices has frustrated the function of the market to allocate supply and because abundant overseas gas is costly to transport. Coal is more expensive owing to new mine safety regulations, among other things, and it is in any case an undesirable fuel in view of air pollution. Nuclear energy is proving more expensive in practice than in theory and, moreover, is itself increasingly a source of apprehension concerning effect on the environment. In short, for different reasons, the cutting edge of these competing fuels is temporarily dulled at a time when the world consumption of energy is higher than expected.

This situation has been reflected in rising prices for refined products everywhere and in higher crude oil prices in North America, Venezuela, the Mediterranean and now, in the Persian Gulf. At this writing, Libya and Venezuela are demanding another round of increases in the price of crude oil on which taxes are reckoned. These demands have been backed in some cases by threats of an embargo.

Murphy, of course, is heavily involved because fully one-half of its crude oil

The technician checking mud logs at a drilling site and the geologists and landmen with their maps and charts are a part of the search for oil and natural gas. The service station attendant has at his disposal the finest in products and the advice of a staff of trained sales representatives.

requirements, whether proprietary or purchased, is supplied from these overseas sources. We agree that higher payments to the producing countries are justified, and oil companies are sorely in need of higher profits if they are to accumulate the capital required to meet future burgeoning demand. There is danger, though, that the host governments and the private companies will overplay their hands and nullify the advantage oil fuels enjoy over competitors in the energy market.

Our financial results in 1971 will be materially affected by the level at which the rapidly changing complex of prices and costs is stabilized. We will, of course, report fully on the situation as it then exists at the annual meeting and in our quarterly reports.

President

March 5, 1971

OPERATING REVIEW

PRODUCTION AND EXPLORATION

Production from the Sassan Field in the Persian Gulf increased again in 1970 although the limitations of treating equipment held production below the field's rated capacity. Plans have been completed for installation of desalting equipment to further increase production. An interesting oil discovery was made in Libya. Exploratory drilling continued in the Jurassic trend of Mississippi and Alabama and in the Williston Basin of North and South Dakota, and additional acreage was acquired in both areas. Successful drilling and an additional interest acquired in the Ship Shoal Block 113 Field increased the Company's oil and gas reserves in the Gulf of Mexico. An ambitious drilling program was carried out in Canada, where the Company doubled its undeveloped acreage portfolio for the second consecutive year.

The Company's crude oil production is divided almost equally between the Western and Eastern Hemispheres.

Iran

The Sassan Field produced an average of 142,000 barrels of oil a day during the year, bringing to more than 100 million barrels the production from the field since it went on-stream late in 1968. Production during 1971 is expected to be only marginally higher because of restrictions imposed to maintain a desirable salt content until the installation of new desalting facilities is completed late in the year. It is anticipated that the new equipment will make it possible for the Lapco group to increase production to the rated capacity of 200,000 barrels a day. Murphy marketed an average of 35,000 barrels of oil a day from the Sassan Field during 1970.

Plans are still under review for development drilling on a structure where the Lapco group discovered oil in 1967. This discovery, 70 miles northwest of Sassan Field, was confirmed in 1968.

Libya

Tests of a discovery well on the 104-A concession have been encouraging. The well tested at the rate of 3,500 barrels of oil a day before the test was ended because of equipment failure. An appraisal well slightly less than two miles north of the discovery was being drilled at year-end.

The Magid Field in Concession 105 and the Mansour Field in Concession 104-B, both owned by a group in which Murphy has a 16-percent interest, produced an average of 20,000 barrels of oil a day during 1970. A development well in the Magid Field was dry, and two exploratory wells on Concession 105 were unsuccessful.

United States

In the United States, Murphy continued its inland exploration program and, directly and through its 51-percent-owned affiliate Ocean Drilling & Exploration Company, an exploration and development program on the Continental Shelf of the Gulf of Mexico.

In Mississippi, two important deep tests on the Jurassic trend were drilling at year-end. Additional seismic exploration work was done to pinpoint drillable prospects in this play in Mississippi and Alabama. Evaluation data were acquired through seismic work, drilling and contributions of well support in the Williston Basin of North and South Dakota.

Testing the product in the laboratory of a refinery. A discussion of operating results at offices of Murphy's Canadian subsidiary. Posting results at the head office at El Dorado or cleaning a windshield with the help of a future customer. It's all in a day's work for the people of Murphy Oil.

The Company participated directly in 13 wells in the Gulf of Mexico in addition to participation through ODECO in 33 others. Four of the direct-participation wells were completed as gas producers and four as oil wells. Eleven of the wells are in Louisiana waters and two offshore Texas. One, in Texas waters, is an excellent stepout gas completion in East High Island Block 129. It is expected to be on-stream by spring of 1971.

ODECO's drilling program in the Gulf of Mexico resulted in 24 new oil completions and 11 gas streams.

Eleven of ODECO's completions were in Ship Shoal Block 113 Field. The new wells and an increase in allowable production rates resulted in oil and gas production from the field being 60 percent higher at the end of 1970 than it was a year earlier. In December, ODECO increased its ownership in this important field to 50 percent at a cost of some $10.6 million. The unit is comprised of 33,000 acres. Additional development and exploratory drilling is anticipated.

Production from Vermilion Block 16 Field declined, but restoration of gas production to a level higher than before is expected soon. Condensate production will be increased, although not to former levels. Further exploratory drilling is planned in 1971. Eight delineation wells were drilled in Ship Shoal Block 224 Field, and plans are being considered for construction of a 12-well drilling platform for additional development.

Eight wells were completed in Eugene Island Block 110 Field, and another was drilling at year-end. Seven shallow oil wells were completed in Blocks 88 and 95, and further development of this reservoir is under way. This shallow production is expected to go on-stream in 1971.

ODECO acquired, with others, 14 tracts totaling more than 62,000 acres in the Federal offshore lease sales held during 1970. The tracts, which were bought at reasonable prices, are on geological structures that are considered good.

Canada

In Canada, the Company participated in the drilling of 37 wells which resulted in 16 oil completions and two gas wells. Twenty-two of 29 exploratory wells drilled were in Alberta, five in Saskatchewan and one each in Ontario and British Columbia.

Three partially completed oil wells resulting from the exploration program are in the Baldwinton area of Saskatchewan. They are expected to provide a foundation for further exploration and development work in 1971 along the route of the Lloydminster-Kerrobert Pipeline begun during 1970 by Murphy and others. Five successful oil development wells in Saskatchewan were drilled offsetting the Lashburn Unit near the north end of the pipeline.

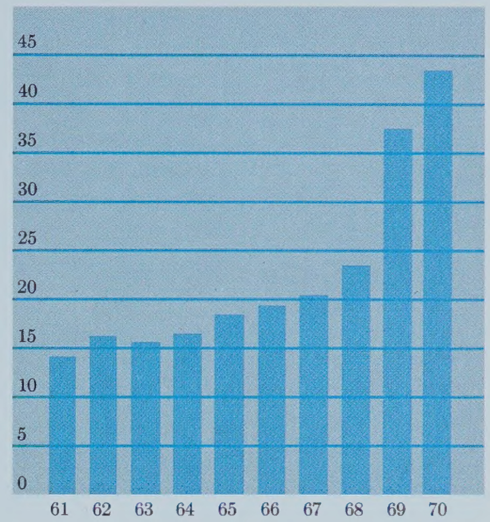
The Company will earn a 50-percent interest in 5.4 million acres in the Arctic islands by performing work. An interest was acquired also in 395,000 acres sufficiently near the Kerrobert Pipeline to provide economical transportation for crude oil.

Venezuela

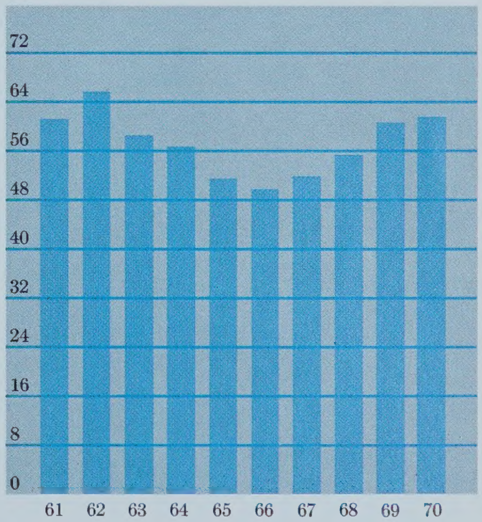
In Block 575, a gas-injection program was continued to maintain the rate of oil production. Several wells were drilled for the injection of gas, and construction was started on additional compressor equipment. A well was completed as an oil producer in Lot 17. Another was drilled for water injection and a third, drilled in an attempt to extend the field, was dry.

Plans have been made to begin a diluent program to facilitate recovery of viscous oil found in a suite of sands which underlay much of the Lot 9 concession. Purchased gas oil will be injected into the sands to mix with the heavy asphaltic crude and improve production rates.

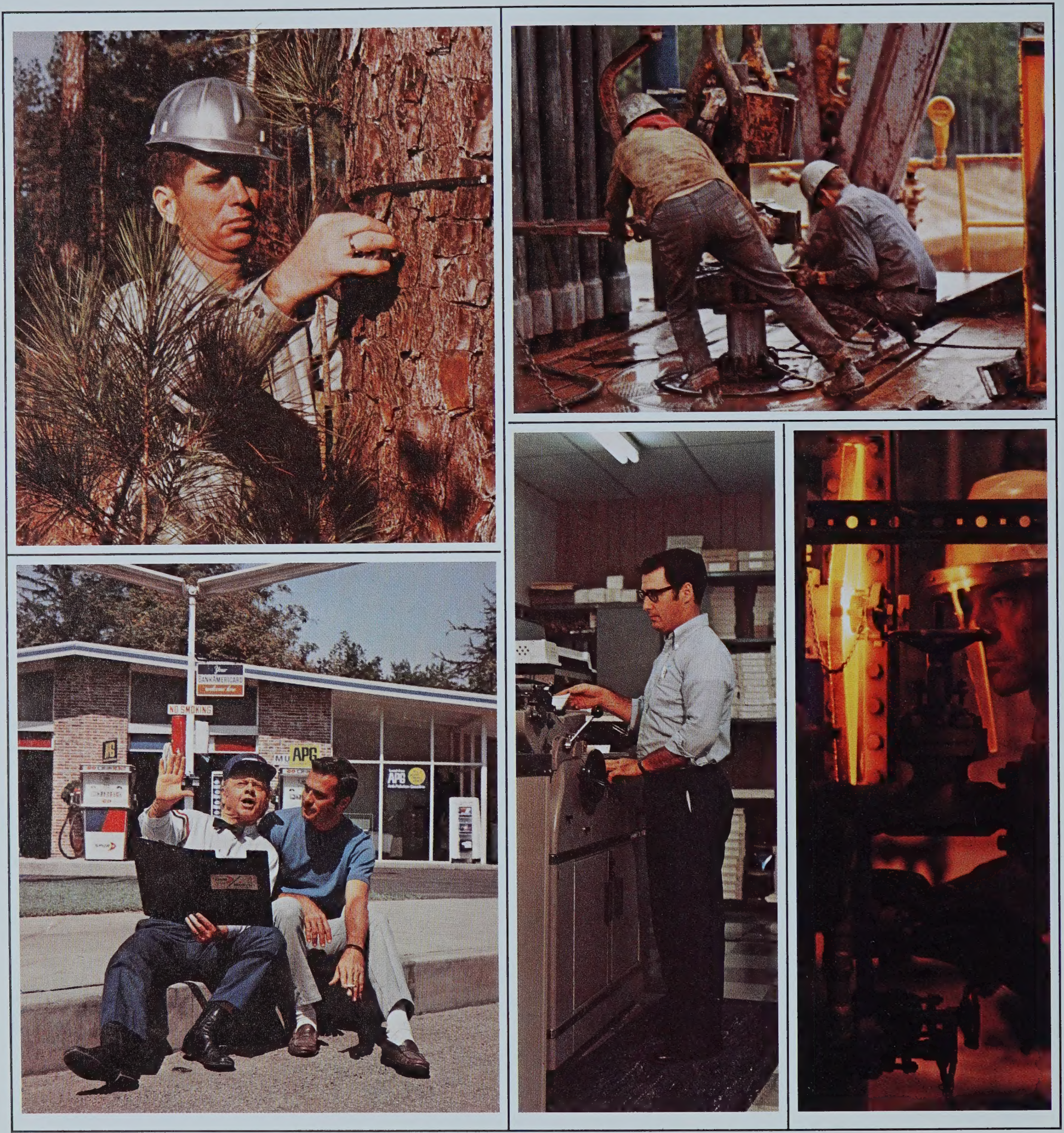
The Venezuelan government has enacted new tax legislation which increased the maximum tax rates in extractive industries from 52 percent to 60 percent. Sliding scale rates were eliminated, causing Murphy's tax increase to be



NET CRUDE OIL AND GAS LIQUIDS PRODUCTION
(thousands of barrels per day)



NET NATURAL GAS PRODUCTION
(millions of cubic feet per day)



Murphy's products come from the earth. The forester checks the growth of a pine tree, but there's only one way to find if oil or gas is present; you have to drill. Selling gasoline calls for advertising, and Mickey Rooney had some ideas of how to shoot the television commercials in which he played the part of a Spur dealer. Running a printing press and working in a processing unit of a refinery are also among the things Murphy people do.

proportionately larger than that imposed on some of the major producers. The increase was retroactive to January 1, 1970, and it dealt a serious blow to Murphy's profits in Venezuela in 1970.

North Sea

Murphy and ODECO continued their exploration programs in the British and Norwegian sectors of the North Sea, and although the activities have resulted in no oil discovery, more drilling will be done on promising structures.

An unsuccessful exploration test was drilled in Norwegian waters 10 miles northeast of an earlier well which tested substantial quantities of dry gas. At year-end, Murphy and ODECO were participating with a group in drilling a well in the British sector.

Australia-New Zealand

In partnership with Société Nationale des Pétroles d'Aquitaine, Murphy and ODECO drilled the first two exploratory tests on a 4,550-square-mile permit off the northern coast of the South Island of New Zealand. Because this area holds great interest as a result of the discovery of important gas reserves by another group on an adjacent permit, additional drilling is planned in 1971. Murphy and ODECO own one-sixth each in the project.

Other Areas

Reconnaissance seismic work has been completed on six blocks in the Italian portion of the Adriatic Sea, where Murphy and ODECO hold a 25-percent interest each in partnership with Societa Italiana Resine. Exploratory testing has been deferred until 1972.

Based on results of seismic work, an exploratory well off the coast of the Republic of South Africa is scheduled to be drilled by ODECO in the first quarter of 1971. ODECO's rig Ocean Traveler will be used.

ODECO has entered into a joint venture agreement with Japan Industrial Land Development Co. Ltd. to explore for oil and gas in Southeast Asia, principally in the offshore areas.

MANUFACTURING

The Company's two refineries in the United States processed record volumes of crude oil in 1970 although the refinery at Superior, Wisconsin did not produce at capacity because of restrictions on the importation of Canadian crude. The two refineries processed at a rate of 59,600 barrels a day, an increase of 5.3 percent over the 1969 runs.

Modifications in process units at both refineries resulted in capacity increases, and the Meraux, Louisiana refinery processed 7.3 percent more crude oil than in 1969. The rate of processing at Superior was only 3 percent greater.

The Meraux and Superior plants were the first in their areas to produce lead-free regular gasoline. Because it is obvious that the government will prohibit or restrict the use of tetraethyl lead in the manufacture of gasoline, design engineering is in progress for a new type of catalytic reformer that will make it possible for the two refineries to eliminate or reduce the use of lead in all gasoline produced.

The new process units will come on-stream in the second half of 1972 as the number of automobiles designed specifically for operation on lead-free fuel increases.

Improvements in unit capacities and greater efficiency afforded advantages at both refineries, but they were offset to some extent by increases in the cost of blend and charge stocks at both refineries and, additionally at Superior, by the increased exchange rate for the Canadian dollar.

Both U. S. refineries are expected to operate at record levels again in 1971.

In Eastern Canada, Northern Europe and the Mediterranean, an average of 37,900 barrels of crude oil a day was processed for Murphy's account. Renegotiation of the various processing agreements should increase the average for 1971 to 44,000 barrels a day.

After long and frustrating delays, the Company's application for planning approval to build a refinery in Scotland was denied by governmental authorities early in 1970. The delay and uncertainty involved were as costly as the denial of the permit itself. A search for another suitable site in the British Isles and northern sectors of the Continent indicated several alternate locations. Late in 1970, Murphy and Ente Nazionale Idrocarburi signed an agreement for joint construction of a refinery on ENI's land on Canvey Island in the Thames estuary east of London.

Canvey Island is strategically located both for receiving shipments of crude oil and dispatching refined product to markets in the United Kingdom. Plans call for completion of a Murphy-ENI refinery there by mid-1973, but the agreement is subject to favorable action on an application for planning permission. Further considerations of construction at other locations are being held in suspense pending results of the application to build on Canvey Island.

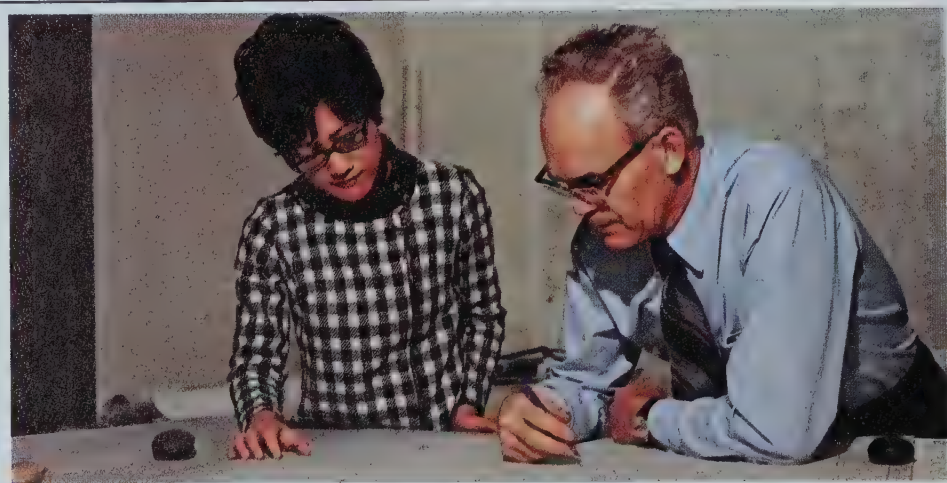
SUPPLY AND TRANSPORTATION

On both sides of the Atlantic, product prices rose in all tiers of distribution in response to high freight rates, increased crude oil prices, interruptions in the normal course of supply and high demand for residual fuel oils.

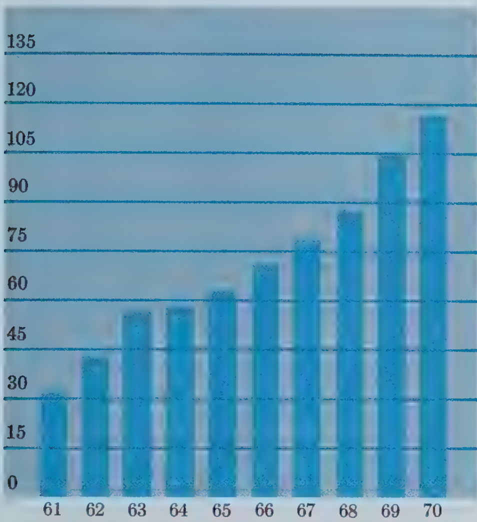
In the Eastern Hemisphere, cargo market prices responded to the shortage of short-haul Mediterranean crude oils due to cut-backs in Libya and the closure of Tapline, increased taxes on crude oil, general tensions in the Middle East and a developing shortage of refining capacity in Europe.

As compared with 1969, Murphy benefited throughout 1970 from affreightment contracts and revised processing arrangements negotiated at relatively lower costs.

Most of the same forces that were at work in the Eastern Hemisphere had a bearing on the Company's activities in the Western Hemisphere. The rising cost of overseas crude oil delivered to the United States East Coast had a depressing effect on the right to import crude oil. At the same time, the imposition of mandatory controls on the importation of Canadian crude oil, which



They all work behind the scenes, but they are a vital part of the team. The aircraft mechanic, the draftsmen (and women), the refinery control operators, the crew laying a pipeline and the secretary who keeps the office going are essential to the Company's work.



REFINED PRODUCT SALES
(thousands of barrels per day)

Murphy believes is an unsound policy for the country, made it impossible to supply all the crude oil needs of Murphy's refinery at Superior, Wisconsin.

Murphy participated in the construction of three pipelines that will facilitate the movement of crude oil and refined products. With Canadian Reserve Oil & Gas Ltd. and Manhattan Continental Development Corporation, the Company started construction of a 100-mile pipeline from the Lloydminster area of Saskatchewan to Kerrobert, where facilities of Interprovincial Pipeline are located, for further shipment to the Superior Refinery. It is anticipated that this pipeline will be operational in the second quarter of 1971.

In October 1970, Murphy and Tenneco, Inc. completed construction of a 120-mile pipeline from their refineries near New Orleans to Collins, Mississippi for the movement of refined products into the Colonial and Plantation Pipeline systems serving the Southeastern states.

ODECO and its partners built a 36-mile crude oil pipeline and shore terminal to handle increased oil production from Ship Shoal Block 113 and South Pelto Block 20 Fields in the Gulf of Mexico. These facilities will handle greatly increased production and will eliminate shutdowns that have been caused by a shortage of storage for crude oil.

MARKETING

The Company sold record volumes of refined products in 1970 and, in the face of unsettled pricing situations in many of its markets, strengthened its position for the future.

United States

In six of the Company's major markets, Murphy was the first to introduce a lead-free 91-octane gasoline. Spur APG Anti-Pollution Gasoline went on the market in New Orleans and Baton Rouge, Louisiana, Tampa–St. Petersburg–Clearwater and Orlando, Florida, Duluth, Minnesota–Superior, Wisconsin and Minneapolis–St. Paul, Minnesota in June 1970. It was introduced to the Mobile, Alabama market early in 1971.

The lead-free gasoline, which contains a DuPont additive, DMA-101, was substituted for 94-octane leaded regular gasoline in those markets and was priced with major-brand regular leaded gasolines. Because Spur stations utilize the blend pump, motorists in those markets have a selection ranging from unleaded regular gasoline through three low-lead blends to leaded premium gasoline.

Spur APG, which has enjoyed favorable initial reception, will be introduced in other markets as automobile manufacturers deliver advanced models designed to operate on lead-free fuel.

An asphalt blending plant at Rhinelander, Wisconsin was completed in late 1970. Basic asphalt and diluents will be shipped by rail from the Superior Refinery to Rhinelander to be custom blended into specification asphalt to meet highway and airport construction needs in expanded areas of Wisconsin and the Upper Peninsula of Michigan.

Sales of refined products in the United States continued to increase, averaging a record 73,500 barrels a day in 1970, compared with 67,800 barrels a day in 1969. Gasoline sales accounted for most of the increase. Although capital expenditures for service stations were less than in previous years, branded sales continued to increase, and the number of Spur service stations in the United States increased by 134 to 1,416. Most of the increase represented individual station owners with sales contracts who elected to market under the Spur brand.

Governmental action or inaction in the areas of oil import quotas, postponement and irregular scheduling of lease sales on the Outer Continental Shelf and delays in North Slope crude oil reaching the market place created a seller's market for domestic crude. Beginning in September 1970, certain large crude oil purchasers instituted price increases, and Murphy, to protect its sources of supply, announced a price increase to its crude oil suppliers in mid-November. In order to recover at least part of the increased cost of raw material, Murphy raised its tank wagon gasoline prices.

Prices for middle distillates were good throughout the year and increased in late 1970 as demand rose. The most marked increase was for fuel oils, which almost doubled in price as they were restored to the status of a primary product instead of their longtime standing as a by-product of the manufacture of gasoline. Low-sulphur fuel oils were in particular demand from industry.

Canada

Petroleum product sales in Canada exceeded the quarter-billion-gallon mark during 1970.

Selling prices were depressed during the first half, but fuel oil prices improved gradually at mid-year, and there was a substantial improvement in distillates and heavy fuels in the fourth quarter. Gasoline prices continued to be disappointing at year-end.

A transition from Company operation of stations to lessee-dealer stations was started in 1969 and, by the end of 1970, only seven service stations remained under direct operation. Retail earnings improved as a result.

The number of Spur service stations in Canada increased by 56 during the year, and there was an increase in the

There are those who harvest soybeans and those who operate the computers that help with the workload. And Mr. Bumbles, who shows how it shouldn't be done in a service station training film. And, behind them all, are the Company's stockholders in their annual meeting.

number of independent dealers marketing under contract with the Company. This growth is expected to continue in 1971 with accelerated development in central Ontario and the first appearance of the Spur flag in the North Shore region of Quebec province.

Europe

Sales of refined products in Europe averaged 25,300 barrels a day.

A new rail-fed terminal was opened at Theale, Berkshire, west of London, as an important satellite of the Company's major terminal in the Port of London area. Other new supply points are being considered.

As a result of the Monopolies Commission report, designed to limit the period of dealer contracts with oil companies, many long-term dealer contracts will end in 1971, and it is expected that Murphy will have the opportunity to acquire additional outlets as a result.

Self-service stations are gaining in popularity, and several Company outlets have been converted. Most new purchased or leased sites will be self-service with high volume throughputs.

As alternate sites for the European refinery did not lend themselves to economic supply of the Swedish market, Murphy's Svenska Murco Petroleum Aktiebolag was sold during 1970. The sale resulted in recovery of virtually the whole of the investment in that country.

CONTRACT DRILLING

Ocean Drilling & Exploration Company, 51-percent owned by Murphy, made significant additions to its drilling fleet during 1970. Through an acquisition, ODECO added two domestic submersible barges and, outside the United States, a jack-up rig, a partially constructed jack-up of a new design, a platform rig and a drilling tender. At year-end, ODECO was operating 12 units in U. S. waters and five elsewhere in the world with two newly designed barges under construction.

A series of delays in lease sales for the Gulf of Mexico curtailed the industry demand for offshore contract drilling. Despite this, ODECO's fleet in domestic waters enjoyed a 94-percent utilization. A lease sale for Western Louisiana was conducted in December, and it is anticipated that the demand for contract drilling will be sound through 1971.

In three widely separated parts of the world, ODECO rigs gave further proof of their seaworthiness and operating capabilities in severe environments. Ocean Viking completed its fifth year of successful operation in the North Sea, and its contract was extended into 1973. Ocean Digger completed a three-year contract off the south coast of Australia in the "Roaring Forties" of maritime lore and moved to Western Australia for a two-year contract. Ocean Traveler completed its first full year of operation off the tip of South Africa. When its present contract is completed, it will drill a well for an ODECO group and then will return for a two-year contract in the North Sea, where renewed interest has been given drilling as a result of an important oil discovery in the Norwegian sector by Ocean Viking while drilling under contract.

The experience gained by the operation of these and other ODECO rigs was incorporated in the design and construction of Ocean Prospector, ODECO's first rig in a new generation of semi-submersible rigs. Prospector, the first semi-submersible to be self-propelled, was commissioned at Hiroshima, Japan in January 1971 and is scheduled for drilling in the Sea of Japan.

The jack-up barge Gulftide drilled in the North Sea in August and September and then went to Norway to be outfitted for novel use in the Ekofisk Field of the Norwegian North Sea as a production platform. It is expected to remain in this use through 1971.

A self-propelled jack-up rig, the Ocean Tide, is under construction in Scotland and was 65 percent complete at year-end. Completion is anticipated in May, and initial employment is planned in the North Sea.

TIMBER AND FARMING

Deltic Farm & Timber Co., Inc. started construction of a $1.5 million sawmill at Ola, Arkansas in 1970. The mill is of a new type, developed in Sweden, that is designed for maximum utilization of the small-stem, dense-grain timber such as that grown in Central Arkansas.

Operation of the sawmill began in the first quarter of 1971. It produces kiln-dried pine lumber for general construction and chips, shavings and sawdust for other local industries.

Deltic's sales of timber during the year were below 1969 levels as raw material was stockpiled for the sawmill.

Even with the decreased timber sales, Deltic's contribution to consolidated earnings was slightly higher than the record level of 1969. Yields of the principal agricultural crops were higher than state averages but were below objective because of weather delays and adverse harvesting conditions. Prices were better than in the preceding year.

PERSONNEL

At year-end, the enterprise had 3,292 employees, a decrease of 343 since 1969. Employment by the parent Company was generally at 1969 levels with the decrease occurring in certain subsidiary companies.

Efforts continued toward achieving goals of minority employment under the Affirmative Action Program adopted in 1969. Modest progress was made.

Continued emphasis on safety resulted in a reduction in the Company's injury frequency rate. A new safety orientation program for service station employees resulted in a significant reduction in the number of lost-time accidents in Company-operated stations.

O. Paul Doyle, manager of manufacturing, was elected a vice president of the Company.

EARNINGS

Consolidated net income was $9,408,000, equal to $1.83 a Common and Common equivalent share after providing $1,122,000 for dividends on the Preferred and Preference Stock. Included in net income was a net extraordinary gain of $71,000, two cents a share, arising from a $740,000 reduction in crude oil costs due to the granting of additional import quota for 1968 and 1969 less expenses of $669,000 related to the abandoned Scottish refinery project. In 1969, consolidated net income was $6,631,000, equal to $1.19 a share including $403,000, nine cents a share, of extraordinary income from the sale of a property. Dividends on Preferred and Preference Stock were $1,136,000 in 1969. Common and Common equivalent shares averaged 4,538,424 in 1970 and 4,616,638 in 1969.

REVENUES

Consolidated gross revenues were $277,564,000, a 10-percent gain for the year. Sales increased 8 percent from $217,292,000 in 1969 to $234,811,000. Volumes of refined product sales averaged 116,300 barrels a day during the year, up from 104,400. Sales volumes increased in all areas, United States 9 percent, Canada 12 percent and Europe 20 percent despite the sale of marketing outlets in Sweden at midyear. As a result of these volume increases and an increase in product prices in the latter part of the year, revenues from petroleum product sales increased 12 percent from $182,664,000 to $203,987,000. Agricultural and timber sales were $1,943,000, a decrease of $84,000 from 1969. Other sales, primarily of oil and gas to third parties, decreased slightly from the prior year despite the increase in average daily production of oil and gas liquids from 37,400 barrels a day in 1969 to 43,200 in 1970, most of which occurred in the Persian Gulf and in Libya. This reflects the higher degree of utilization of proprietary crude oil in our refined products.

Drilling and other operating revenues increased from $29,468,000 to $36,363,000, a significant 23-percent gain due to additions to the drilling fleet at midyear.

Interest and other income increased 22 percent to $6,390,000, primarily from higher earnings on short-term investment of surplus working capital.

COSTS AND DEDUCTIONS

Consolidated costs and deductions were $268,227,000, 96.6 percent of total revenues, compared with $245,768,000, 97.5 percent, in 1969. Costs of crude oil, products and related operating expenses increased 4 percent from $168,036,000 to $175,141,000 reflecting increased crude costs, record refinery throughputs and refined product sales volumes coupled with continuing inflationary pressures on most other operating expenses. Drilling barge and other operating expenses increased 17 percent over 1969 to $15,326,000 and reflected the same inflationary cost increases but rose most significantly due to the operating expenses of the barges added to the fleet.

Exploration expenses, including dry hole costs, were $10,215,000. This is an increase of $1,555,000, 18 percent over the previous year, and results mainly from stepped-up exploration activity, principally in the Jurassic trend of Mississippi and in the Gulf of Mexico.

Selling and general expenses were $21,563,000, compared with $18,739,000, a 15-percent increase. Compared to total revenues, they were 7.8 percent in 1970 and 7.4 percent in 1969, indicating that most of the increase was the result of the growth of the business.

Depreciation and depletion increased 20 percent from $14,303,000 to $17,167,000, partially due to increased production and miscellaneous capital additions but mostly because of the depreciation on the drilling barges added to the fleet.

Taxes other than income taxes were $4,548,000, compared with $4,318,000 in 1969. Interest expense was $7,817,000, an increase of $1,133,000 over 1969. Virtually all of this increase is due to additional borrowing and is offset by the increase in interest and other income. The increase in Federal and state income taxes from $2,572,000 to $4,550,000 is due to increased earnings, particularly in connection with contract drilling. Foreign income taxes were $7,398,000, up from $5,652,000 in 1969 due to increased production in Iran and Libya and to increased tax rates in Venezuela.

Excise taxes totaling $125,395,000 were collected from the Company's customers and remitted to governmental agencies. This is an increase of $5,081,000 over the prior year.

CAPITAL EXPENDITURES

Capital expenditures were $80,564,000, compared with $41,321,000 spent in 1969. Additions to property, plant and equipment of $72,792,000 are detailed elsewhere in the financial section. Expenditures of $7,772,000, including $6,560,000 for dry holes, were expensed. Dry hole costs for 1969 were $5,159,000.

Expenditures for production and exploration aggregating $36,909,000 are made up of $5,040,000 in inland United States, $26,373,000 in the Gulf of Mexico, $2,507,000 in Canada, $1,034,000 in Libya, $770,000 in New Zealand and $1,185,000 in other areas. The Gulf of Mexico expenditures include $10,600,000 for the acquisition of an additional interest in Block 113, Ship Shoal Field and $5,783,000 for nonproducing leases.

Manufacturing Department expenditures of $3,435,000 included $1,067,000 spent for the Scottish refinery, of which $378,000 was charged to extraordinary expense. The remainder consists principally of the costs of crude unit revamps and additional tankage at both refineries.

Expenditures for service station and terminal construction, service station modernization and other marketing facilities totaled $8,217,000—$4,466,000 in the United States, $2,253,000 in Canada and $1,498,000 in Western Europe.

Additions to drilling barges and equipment cost $25,683,000. Of this amount, $22,178,000 was spent to acquire three operating drilling barges, a barge under construction and a platform drilling rig from Rimrock Tidelands, Inc. and its

affiliates. The balance was for modification and modernization to certain units of the existing fleet.

Expenditures for transportation facilities were $3,664,000. This includes $1,876,000 for the completion and purchase of an additional interest in the South Pelto-Ship Shoal Field crude oil pipeline and progress payments of $1,788,000 on a crude oil pipeline in Saskatchewan, Canada.

Other significant expenditures were $1,048,000 in progress payments for the construction of a $1,500,000 sawmill at Ola, Arkansas by Deltic Farm & Timber Co., Inc. and $760,000 for subsea pipeline repair and diving equipment by Sub Sea International Inc., a subsidiary of Ocean Drilling & Exploration Company.

CAPITAL EMPLOYED

Working capital at year-end amounted to $53,849,000, a decrease of $15,920,000 during the year. Long-term notes payable, excluding current amount of $11,008,000, totaled $88,840,000, an increase of $19,607,000. Outstanding convertible debentures were unchanged from a year ago at $34,765,000.

Stockholders' equity increased $5,131,000 during 1970 to a total of $142,680,000 at year-end. During the year, cash dividends of $1,124,000 were paid on the Preferred and Preference Stock, and $2,722,000 was paid on Common Stock. Treasury stock showed a net increase of 10,140 shares of Common Stock, $182,000, as the result of open market purchases.

STATEMENT OF ACCOUNTING POLICIES

Principles of Consolidation—The consolidated financial statements include the accounts of Murphy Oil Corporation and its significant majority-owned subsidiaries except for a foreign insurance company which is accounted for on an equity basis. The Company's equity and investments in two unconsolidated subsidiaries, accounted for on a cost basis, are not material.

Foreign currencies are translated into United States dollars as follows: property, plant and equipment, deferred charges, investments and long-term debt at rates prevailing when acquired or incurred; other assets and liabilities at year-end rates; revenues and expenses at average rates during each year, except for provisions for depreciation, depletion and amortization which are based on the United States dollar equivalents of the related assets. Translation gains and losses are reflected in income.

The Company amortizes goodwill arising from acquisitions over periods of from five to ten years.

Inventories—Inventories of finished products are stated at the lower of cost (applied on a first-in, first-out basis) or market. Inventories of crude oil in the United States and Canada are stated at market prices. Crude oil inventories located in foreign areas are stated at the lower of cost or estimated realizable value. Materials and supplies are valued at average cost or less.

Exploration and Development—Geological and geophysical expenditures which result in the acquisition or retention of undeveloped leaseholds are capitalized. If production is obtained, appropriate leasehold costs are transferred to producing oil and gas properties. The cost of that portion of undeveloped leaseholds estimated at the time of acquisition to be nonproductive is amortized over its estimated period of retention. Intangible development costs on productive wells are capitalized for financial reporting purposes, but for Federal income tax purposes all such costs are taken as deductions. Dry hole costs, lease rentals and other exploration expenses are charged against earnings as incurred.

Depreciation and Depletion—Depreciation and depletion of producing oil and gas properties are computed on the unit-of-production method based on estimated recoverable oil and gas reserves for each separate property except for properties located in the Gulf of Mexico. Gulf properties are combined and treated as one property. Depreciation of refining and marketing facilities, drilling barges and related equipment, and other properties is calculated on the composite straight-line method.

Asset Retirements—Disposals or retirements which are extraordinary in nature and amount or which include an entire depreciable or depletable property unit are accounted for by charging or crediting income with the residual cost, adjusted for salvage or other proceeds. Upon disposal or retirement of less than an entire depreciable or depletable unit, the cost of the properties less salvage or other proceeds is charged or credited to the related reserves for depreciation and depletion.

Maintenance and Repairs—Provisions are made for refinery turnarounds and major repairs to drilling barges by charges against current income. Other maintenance and repair costs are charged against earnings as incurred. Renewals and betterments are capitalized.

Income Taxes—Provision is made in the accounts to reflect the interperiod allocation of income taxes resulting from certain income and expenses being treated differently for financial reporting purposes than for tax computation purposes. Principal items so treated are amortization of nonproducing leases, provisions for major barge repairs and refinery turnarounds, and accelerated depreciation. Deferred tax accounting is practiced by the Company because it is required by Opinion No. 11 of the Accounting Principles Board, American Institute of Certified Public Accountants.

Employee Retirement Plans—The Company and its subsidiaries have trusteed retirement plans covering substantially all of their employees. Prior service cost is amortized over varying periods up to 20 years and is funded as it accrues. Gains or losses resulting from changes in actuarial assumptions are spread over 10 years.

Excise Taxes—Taxes collected on the sale of products and remitted to governmental agencies are not included in the income statement.

Earnings Per Share—Net income per Common and Common equivalent share is computed in accordance with Opinion No. 15 of the Accounting Principles Board, American Institute of Certified Public Accountants. Accordingly, net income per Common and Common equivalent share is computed by dividing the weighted average number of Common and Common equivalent shares outstanding during each year into net income applicable to such shares after deducting dividends attributable to the Preferred and Preference shares. Only the Company's outstanding warrant and exercisable options are Common share equivalents. The weighted average number of Common shares outstanding in each year is increased by the shares issuable under the warrant and options with the number of shares being determined by the Treasury Stock method.

STATEMENT OF INCOME—YEARS ENDED DECEMBER 31, 1970 and 1969

	1970	1969
REVENUES		
Sales	**$234,811,000**	217,292,000
Drilling and other operating revenues	**36,363,000**	29,468,000
Interest and other income	**6,390,000**	5,236,000
Total revenues	**277,564,000**	251,996,000
COSTS AND DEDUCTIONS		
Crude oil, products and related operating expenses	**175,141,000**	168,036,000
Drilling barge and other operating expenses	**15,326,000**	13,123,000
Exploration expenses	**10,215,000**	8,660,000
Selling and general expenses	**21,563,000**	18,739,000
Depreciation and depletion	**17,167,000**	14,303,000
Taxes other than income taxes	**4,548,000**	4,318,000
Interest expense	**7,817,000**	6,684,000
Federal and state income taxes	**4,550,000**	2,572,000
Foreign income taxes	**7,398,000**	5,652,000
Minority interests' income	**4,502,000**	3,681,000
Total costs and deductions	**268,227,000**	245,768,000
INCOME BEFORE EXTRAORDINARY ITEMS	**9,337,000**	6,228,000
Extraordinary items less income taxes of $70,000 in 1970 and $153,000 in 1969:		
Reduction in crude costs due to additional import quota for 1968 and 1969	**740,000**	—
Expenses related to abandoned Scottish refinery project	**(669,000)**	—
Gain on sale of a property	**—**	403,000
NET INCOME	**$ 9,408,000**	6,631,000
Per Common and Common equivalent share:		
Income before extraordinary items	**$1.81**	1.10
Net income	**1.83**	1.19

See notes to financial statements, page 20.

BALANCE SHEET— DECEMBER 31, 1970 and 1969

	1970	1969
ASSETS		
Current assets:		
Cash	$ 12,292,000	11,683,000
Certificates of deposit	27,600,000	22,007,000
Marketable securities, at cost which approximates market	5,271,000	18,166,000
Accounts receivable, less allowance for doubtful accounts of $1,282,000 in 1970 and $1,090,000 in 1969	57,252,000	50,938,000
Inventories of crude oil and finished products	34,021,000	25,539,000
Materials and supplies	3,832,000	3,406,000
Total current assets	140,268,000	131,739,000
Investments and noncurrent receivables, principally at cost	11,279,000	10,174,000
Property, plant and equipment, at cost less reserves	238,729,000	194,110,000
Deferred charges and other assets	8,944,000	7,891,000
	$399,220,000	343,914,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Long-term notes, payments due within one year	$ 11,008,000	6,711,000
Notes payable	5,712,000	4,167,000
Accounts payable and accrued liabilities	58,063,000	45,101,000
Income taxes	11,636,000	5,991,000
Total current liabilities	86,419,000	61,970,000
Long-term notes payable	88,840,000	69,233,000
Convertible debentures	34,765,000	34,765,000
Deferred and noncurrent income taxes	9,212,000	6,644,000
Reserves for major repairs	2,979,000	2,559,000
Deferred credits and other liabilities	801,000	1,515,000
Minority interests in subsidiaries	33,524,000	29,679,000
Stockholders' equity	142,680,000	137,549,000
	$399,220,000	343,914,000

See notes to financial statements, page 20.

STATEMENT OF STOCKHOLDERS' EQUITY—YEARS ENDED DECEMBER 31, 1970 and 1969

	1970	1969
CAPITAL STOCK		
Cumulative Preferred Stock, Series A, 6¼%, par $100, authorized and issued 35,797 shares	$ 3,580,000	3,832,000
Cumulative Preference Stock, par $100, authorized 400,000 shares; 5.20% Series, issued 171,570 shares	17,157,000	17,157,000
Common Stock, par $1.00, authorized 8,000,000 shares, issued 4,552,351 shares	4,552,000	4,552,000
Capital Stock at end of year	25,289,000	25,541,000
CAPITAL IN EXCESS OF PAR VALUE		
Balance at beginning of year	64,136,000	64,106,000
Add:		
Excess of proceeds over par value of Common Stock sold	3,000	31,000
Conversion of Cumulative Preference Stock, 5.20% Series	—	23,000
Deduct listing application and registration expenses	—	24,000
Capital in Excess of Par Value at end of year	64,139,000	64,136,000
RETAINED EARNINGS		
Balance at beginning of year:		
As previously reported	47,997,000	47,158,000
Deduct provision for prior years' amortization of undeveloped acreage costs	—	1,928,000
As restated	47,997,000	45,230,000
Add net income for the year	9,408,000	6,631,000
Deduct cash dividends declared:		
Preferred and Preference Stock	1,124,000	1,134,000
Common Stock—$0.60 a share	2,722,000	2,730,000
Retained Earnings at end of year	53,559,000	47,997,000
Less treasury stock, 15,640 shares of Common Stock in 1970 and 5,500 shares in 1969, at cost	307,000	125,000
TOTAL STOCKHOLDERS' EQUITY	$142,680,000	137,549,000

See notes to financial statements, page 20.

STATEMENT OF SOURCE AND APPLICATION OF FUNDS—YEARS ENDED DECEMBER 31, 1970 and 1969

	1970	1969
SOURCE OF FUNDS		
Net income	$ 9,408,000	6,631,000
Depreciation and depletion	17,167,000	14,303,000
Amortization of undeveloped acreage costs	1,490,000	1,455,000
Deferred and noncurrent income taxes	2,568,000	1,714,000
Minority interests' income	4,502,000	3,681,000
Other	2,460,000	2,227,000
Funds provided by operations	37,595,000	30,011,000
Issuance of convertible debentures	—	34,765,000
Long-term notes payable	34,471,000	11,208,000
Sales of property	4,387,000	3,477,000
Reduction of a noncurrent receivable	3,379,000	3,695,000
Total funds provided	79,832,000	83,156,000
APPLICATION OF FUNDS		
Additions to property, plant and equipment:		
Production and exploration	29,515,000	10,075,000
Manufacturing	3,057,000	3,617,000
Marketing	8,217,000	7,825,000
Drilling barges and equipment	25,683,000	12,271,000
Transportation	3,664,000	937,000
Farm, timber and other	2,656,000	670,000
Total	72,792,000	35,395,000
Reduction in long-term notes payable	14,864,000	6,954,000
Dividends	3,846,000	3,864,000
Major drilling barge and refinery repairs	1,542,000	1,762,000
Investments, noncurrent receivables and deferred charges	1,513,000	4,312,000
Other	1,195,000	827,000
Total funds applied	95,752,000	53,114,000
INCREASE (DECREASE) IN WORKING CAPITAL	$(15,920,000)	30,042,000

See notes to financial statements, page 20.

Notes to Financial Statements

(See pages 15 and 21 for a statement of accounting policies and details of long-term debt, respectively.)

Assets Employed and Net Income—Geographically

A summary of the approximate geographical distribution of assets employed at December 31, 1970 and of net income for 1970 follows:

	United States	Other Western Hemisphere	Eastern Hemisphere	Total
Assets employed	$236,670,000	51,501,000	111,049,000	399,220,000
Net income	$ 3,095,000	2,274,000	4,039,000	9,408,000

Property, Plant and Equipment

Investment in property, plant and equipment at December 31, 1970 and 1969 is summarized as follows:

	1970	1969
Production and exploration	$167,948,000	141,062,000
Manufacturing	37,112,000	35,869,000
Marketing	57,440,000	55,463,000
Drilling barges and equipment	95,364,000	70,794,000
Transportation	4,616,000	971,000
Farm, timber and other	13,512,000	11,489,000
	375,992,000	315,648,000
Reserves for depreciation, depletion and amortization	137,263,000	121,538,000
	$238,729,000	194,110,000

Income Taxes

Income taxes for 1970 include the following:

	Federal and State	Foreign	Total
Current	$2,646,000	7,141,000	9,787,000
Deferred and noncurrent	1,904,000	257,000	2,161,000
	$4,550,000	7,398,000	11,948,000

Federal income taxes have been reduced by investment tax credit of $236,000. Unused investment credit of approximately $875,000 at December 31, 1970, not reflected in the financial statements, is available to reduce taxes in future years subject to the limitations on carryover.

Employee Retirement Plans

Retirement plan costs for 1970 were $612,000 and included $144,000 for the amortization of prior service cost. Unfunded prior service cost is approximately $1,552,000. Retirement plan funds plus balance sheet accruals were sufficient to cover the actuarial value of vested benefits at December 31, 1969, the date of the most recent computation.

Stock Options and Warrant

Under the Employee Stock Option Plan, adopted in 1955 and discontinued in 1965, options were granted to key employees to purchase shares of the Company's Common Stock at 95% of the market value at the date of grant. The options became exercisable as to 40% of the total shares two years after date of grant with an additional 20% exercisable each year thereafter. They expire after ten years.

The 1969 Stock Option Plan provides for the granting of options to purchase 75,000 shares of the Company's Common Stock. Both qualified and nonqualified options are issuable to key employees of the Company and its 80%-owned subsidiaries at a price not less than the fair market value on the date of grant. The options are exercisable as to 50% of total shares three years after date of grant and as to all shares after four years. Qualified and nonqualified options expire after five and 10 years, respectively.

Changes during 1970 in options outstanding were as follows:

	1955 Plan		1969 Plan	
	Average Price	Number of Shares	Average Price	Number of Shares
Outstanding January 1, 1970	$18.92	14,340	$43.63	22,500
Granted	—	—	19.44	25,800
Canceled or expired	19.04	(2,040)	43.63	(3,000)
Exercised	18.95	(5,670)	—	—
Outstanding December 31, 1970	18.85	6,630	29.85	45,300

Pursuant to terms of a loan agreement, a warrant which expires September 1, 1976 is outstanding for the purchase of 158,550 shares of the Company's Common Stock at $21.76 a share until September 1, 1971 and $29.46 a share thereafter.

Stockholders' Equity

Certain loan agreements of the Company and the provisions of the Certificate of Incorporation relating to the Cumulative Preferred Stock, Series A, contain, among other things, covenants relating to the maintenance of financial ratios, indebtedness and payment of cash dividends. At December 31, 1970 retained earnings of approximately $13,700,000 were free from the most restrictive of such covenants.

The Cumulative Preferred Stock, Series A, is redeemable at $100 a share at decreasing premiums plus unpaid dividends. There were 2,521 shares of the Series A redeemed during 1970. Beginning on June 1, 1971 the Company must make annual sinking fund payments sufficient to redeem 5,042 shares at par plus unpaid dividends.

Each share of the Cumulative Preference Stock, 5.20% Series, is convertible into 2.50 shares of Common Stock at any time prior to June 1, 1982. Commencing June 1, 1983 the Company must retire 5,158 shares annually at par plus unpaid dividends. The Company at any time may redeem the 5.20% Series at $100 a share at decreasing premiums plus unpaid dividends.

The 5% Convertible Debentures Due 1989 are convertible into Common Stock of the Company at $52 a share.

At December 31, 1970, 428,925 shares of the Company's authorized and unissued Common Stock were reserved for issuance upon conversion of the 5.20% Series and 480,769 shares were reserved for conversion of the Debentures.

During 1970, 15,500 Common shares were purchased as treasury stock and 5,360 treasury shares were sold to optionees under the Employee Stock Option Plan.

Commitments

The Company and its subsidiaries have long-term leases expiring more than three years after December 31, 1970 on service stations, office space and other facilities. Minimum annual rentals under these leases without reduction for related rental income will approximate $4,814,000 through 1980, then $2,914,000 through 1990 and will decrease to approximately $576,000 thereafter. The leases generally contain multiple renewal options and leases on service stations provide that the companies shall pay ad valorem taxes and certain other charges. At December 31, 1970 commitments for capital expenditures were approximately $7,900,000 and contingent liabilities under throughput agreements were $4,600,000.

LONG-TERM DEBT—DECEMBER 31, 1970

LONG-TERM NOTES PAYABLE	Due Within One Year	Long-Term
MURPHY OIL CORPORATION		
6¼% due 1971 to 1983	$ 2,400,000	28,800,000
Payable to banks, 7¼%* due 1972 and 1973	—	6,667,000
Payable to foreign bank, 7% due 1971	3,460,000(a)	—
7¼% due 1973	—	2,303,000(a)
Other due 1971 to 1979	90,000	742,000
Total Company	5,950,000	38,512,000
SUBSIDIARIES		
Mortgage note, 8¼%* due 1971 to 1975	2,500,000	10,000,000
5.32% due 1971 to 1976	1,400,000	7,000,000
Mortgage notes, 5½% due 1971 to 1983	324,000	4,463,000
Payable to foreign banks (a):		
6½% and 6¾% due 1972 and 1973	—	7,990,000
Mortgage note, 5½% due 1972 to 1979	—	5,707,000
7⅜%* and 7½%* due 1972	—	3,900,000
7½% due 1972	—	5,914,000
5½% due 1971 to 1975	396,000	1,592,000
6⅝%* and 7⅞%* due 1974	—	2,636,000
Other due 1971 to 1981	438,000	1,126,000
Total Subsidiaries	5,058,000	50,328,000
CONSOLIDATED LONG-TERM NOTES PAYABLE	$11,008,000	88,840,000
CONVERTIBLE DEBENTURES—Subsidiaries		
5% Convertible Debentures Due 1989		$25,000,000
5½% Convertible Subordinated Debentures Due 1994		9,765,000(b)
CONSOLIDATED CONVERTIBLE DEBENTURES		$34,765,000

Amounts becoming due for the four years after 1971 are: 1972, $27,161,000; 1973, $16,079,000; 1974, $10,773,000; and 1975, $8,055,000. *Interest rate fluctuates. (a) United States dollar equivalent. (b) After elimination of $10,108,000, the principal amount of debentures held by Murphy Oil Corporation.

Accountants' Report

THE BOARD OF DIRECTORS
MURPHY OIL CORPORATION:

We have examined the balance sheet of Murphy Oil Corporation and Consolidated Subsidiaries as of December 31, 1970 and the related statements of income and stockholders' equity and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the above mentioned financial statements present fairly the financial position of Murphy Oil Corporation and Consolidated Subsidiaries at December 31, 1970 and the results of their operations and source and use of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

Shreveport, Louisiana
March 5, 1971

TEN-YEAR SUMMARY—(Dollars in thousands, except per-share amounts)

FINANCIAL	1970	1969	1968
Sales and other revenues:			
Oil, gas and refined products	$233,467	215,782	182,884
Drilling revenue	$ 35,653	28,541	27,418
Agricultural products and timber	$ 1,943	2,027	1,518
Other income	$ 6,501	5,646	2,731
Total revenues	$277,564	251,996	214,551
Income before extraordinary items	$ 9,337	6,228	7,020
Per Common and Common equivalent share	$ 1.81	1.10	1.28
Net income	$ 9,408	6,631	7,918
Per Common and Common equivalent share	$ 1.83	1.19	1.48
Cash flow	$ 33,219	24,909	24,274
Per Common and Common equivalent share	$ 7.07	5.15	5.18
Capital expenditures:			
Production and exploration	$ 36,909	16,001	19,428
Manufacturing	$ 3,435	3,617	1,673
Marketing	$ 8,217	7,825	6,223
Drilling barges and equipment	$ 25,683	12,271	3,209
Farm, timber and other	$ 6,320	1,607	887
Total capital expenditures	$ 80,564	41,321	31,420
Funds provided by operations	$ 37,595	30,011	30,259
Total assets	$399,220	343,914	283,709
Working capital	$ 53,849	69,769	39,727
Long-term debt	$123,605	103,998	64,979
Stockholders' equity	$142,680	137,549	135,032
Cash dividends—Preferred and Preference	$ 1,124	1,134	1,432
Common	$ 2,722	2,730	2,466
Shares of Common Stock outstanding at year-end (thousands)	4,537	4,547	4,549
Common stockholders at year-end	5,348	5,203	5,208
Employees at year-end	3,292	3,635	3,662
Salaries, wages and benefits	$ 29,396	27,020	24,504
PRODUCTION AND EXPLORATION (net)			
Crude oil and gas liquids produced—barrels per day	43,197	37,448	22,973
Natural gas produced—MCF per day	61,710	60,334	55,445
Wells completed:			
Oil wells	12	5	15
Gas wells	3	4	3
Dry holes	17	25	20
Oil and gas wells owned	580	588	597
Undeveloped acreage (thousands of acres)	7,476	3,713	2,657
MANUFACTURING			
Refinery inputs—barrels per day:			
At Company refineries	59,573	56,590	51,790
At other refineries	37,897	33,805	26,473
Refining capacity—barrels per day	68,000	60,000	55,000
MARKETING			
Products sold—barrels per day:			
Gasoline	63,068	55,799	46,279
Distillates	31,466	29,637	25,497
Residuals	19,093	15,818	13,470
Asphalt	2,659	3,180	2,790
Total products sold	116,286	104,434	88,036
Branded retail outlets—leased and owned	871	942	928
others	1,305	1,332	1,103

The years 1961 through 1968 have been restated. Adjustment has been made for a 2% stock dividend in 1962.

Income and cash flow total and per-share figures are after elimination of minority interests.

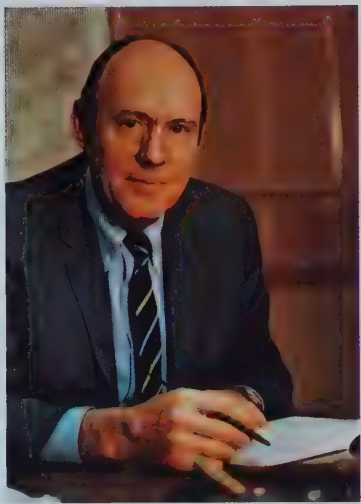
1967	1966	1965	1964	1963	1962	1961
171,706	158,973	142,549	130,887	125,216	122,174	97,591
24,161	19,557	15,956	12,404	9,258	6,962	6,629
1,619	1,330	1,203	1,189	1,241	1,136	1,085
1,701	2,372	1,275	904	790	718	685
199,187	182,232	160,983	145,384	136,505	130,990	105,990
8,786	8,102	6,204	4,159	4,982	2,796	4,953
1.88	1.82	1.42	1.01	1.22	0.65	1.36
8,330	8,102	6,204	4,159	4,982	2,796	4,953
1.77	1.82	1.42	1.01	1.22	0.65	1.36
23,753	22,383	19,888	16,181	16,315	14,664	15,109
5.62	5.48	4.95	4.11	4.15	3.72	4.21
18,655	11,554	18,495	11,097	6,373	12,903	11,717
1,818	2,524	533	558	293	1,900	16,824
5,888	4,280	3,226	3,124	2,225	3,457	5,525
6,803	13,023	10,930	8,391	3,784	2,750	230
839	281	240	430	110	126	139
34,003	31,662	33,424	23,600	12,785	21,136	34,435
28,238	26,845	22,277	17,639	17,026	15,389	14,532
267,791	229,035	203,622	174,108	159,083	156,617	147,840
42,409	34,180	28,566	18,233	20,577	18,632	16,923
64,856	60,750	54,254	47,503	43,629	45,311	36,594
130,826	109,068	103,586	85,152	83,267	80,589	80,134
1,198	998	686	254	263	271	130
1,974	1,938	1,936	1,935	1,931	1,919	1,725
3,990	3,876	3,876	3,871	3,863	3,856	3,856
4,980	5,228	4,973	5,417	5,220	5,600	5,775
3,873	3,634	3,879	3,585	3,418	3,415	3,410
23,881	21,347	18,650	16,357	15,300	15,196	12,269
20,241	19,581	18,407	15,914	15,337	15,729	14,047
51,679	49,556	51,581	56,461	58,208	65,733	61,408
26	29	37	36	28	18	25
3	2	3	5	4	6	2
18	35	32	14	17	15	12
619	602	592	548	484	458	451
2,436	2,339	2,965	3,709	2,247	6,086	3,071
48,142	45,411	41,057	39,271	38,581	34,096	16,373
12,858	10,630	7,672	4,011	4,000	3,989	1,381
50,000	47,000	44,000	43,000	43,000	40,000	35,000
43,137	38,808	33,052	29,639	25,666	22,973	16,915
20,608	18,825	17,471	14,355	16,975	12,011	6,833
11,781	10,419	10,205	12,825	11,699	8,041	6,036
2,597	2,019	1,123	1,082	773	731	767
78,123	70,071	61,851	57,901	55,113	43,756	30,551
833	779	735	681	636	607	586
995	665	598	470	337	333	314

BOARD OF DIRECTORS


C. H. Murphy Jr.

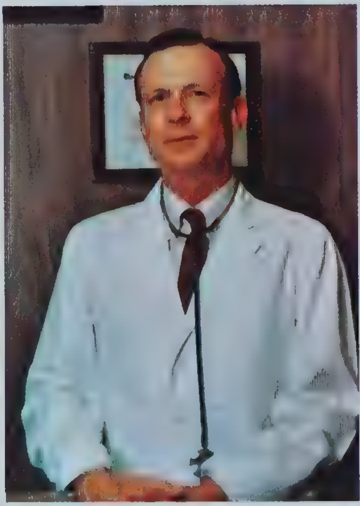

J. A. O'Connor Jr.


Charles J. Hoke


Charles E. Cowger


William C. Nolan

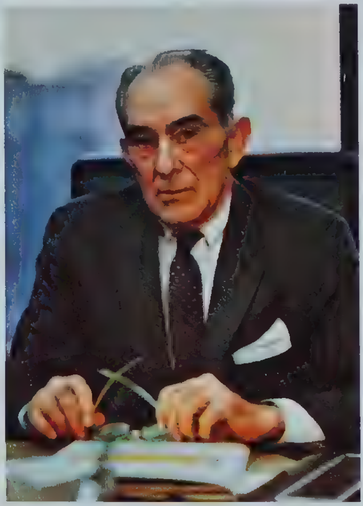

Bruce K. Brown


Dr. John W. Deming


F. B. Ingram


James R. Jones


The Rt. Rev. Christoph Keller Jr.


Ralph Owen


David T. Searls

MURPHY
OIL CORPORATION

SPUR

BOARD OF DIRECTORS

*C. H. Murphy Jr. (1950)
President

*J. A. O'Connor Jr. (1955)
Chairman of the Board

*Charles J. Hoke (1950)
Senior Vice President

*Charles E. Cowger (1968)
Senior Vice President

*William C. Nolan (1950)
El Dorado, Arkansas
Partner, Munoco Company

Bruce K. Brown (1960)
New Orleans, Louisiana
Management Consultant, formerly Chairman of the Board

Dr. John W. Deming (1950)
Alexandria, Louisiana
Physician

F. B. Ingram (1961)
New Orleans, Louisiana
Chairman of the Board, Ingram Corporation

James R. Jones (1968)
Controller

The Rt. Rev. Christoph Keller Jr. (1950)
Little Rock, Arkansas
Bishop, Episcopal Diocese of Arkansas

Ralph Owen (1960)
Nashville, Tennessee
Formerly Chairman of American Express Company

David T. Searls (1969)
Houston, Texas
Senior Partner, Vinson, Elkins, Searls & Smith

*Member of the Executive Committee
(Year of election to the Board indicated in parentheses)

OFFICERS

C. H. Murphy Jr., *President*

J. A. O'Connor Jr., *Chairman of the Board*

Charles J. Hoke, *Senior Vice President*

Charles E. Cowger, *Senior Vice President*

John L. Solomon, *Vice President*

Paul C. Bilger, *Vice President*

Ben S. Smith Jr., *Vice President*

O. Paul Doyle, *Vice President*

James R. Jones, *Controller*

L. R. Beasley, *Treasurer*

Jerry W. Watkins, *Secretary*

TRANSFER AGENTS AND REGISTRARS

Common Stock

Transfer Agents
Chemical Bank, New York
Mercantile Trust Company N.A., St. Louis

Registrars
Morgan Guaranty Trust Company of New York, New York
St. Louis Union Trust Company, St. Louis

Cumulative Preferred Stock, Series A

Transfer Agent and Registrar
Murphy Oil Corporation, El Dorado, Arkansas

Cumulative Preference Stock, 5.20% Series

Transfer Agent
Chemical Bank, New York

Registrar
Morgan Guaranty Trust Company of New York, New York

AUDITORS

Peat, Marwick, Mitchell & Co., Shreveport, Louisiana

PRINCIPAL SUBSIDIARY COMPANIES

Deltic Farm & Timber Co., Inc. (100%)
Farm and timber properties in Arkansas and Louisiana

Murphy Eastern Oil Company (100%)
Coordination of the Company's activities in Europe, Africa and the Middle East

Murphy Oil Company Ltd. (89%)
Exploration for and production of crude oil and natural gas and retail and wholesale marketing of petroleum products in Canada

Murphy Oil International Finance Corporation (100%)
Financing of capital requirements of foreign operations

Murphy Oil Trading Company (100%)
Purchase, sale and transportation of crude oil and refined petroleum products

Murphy Oil Venezolano, C. A. (100%)
Exploration for and production of crude oil and natural gas in Venezuela

Ocean Drilling & Exploration Company (51%)
Drilling contracting and exploration on continental shelves worldwide—Oil and gas production in the Gulf of Mexico

Annual Meeting

The annual meeting of the stockholders of the Company will be held May 5, 1971 at the El Dorado Fine Arts Center, El Dorado, Arkansas.

Printed in the United States of America

MURPHY OIL CORPORATION
200 JEFFERSON AVENUE
EL DORADO, ARKANSAS 71730

File

MURPHY
OIL CORPORATION

Report of the 1970 Annual Meeting of Stockholders including First Quarter Report

Proceedings

The meeting was called to order by J. A. O'Connor Jr., chairman of the Board, who declared a quorum present with 3,644,866 shares of Common Stock, slightly more than 80 percent of the total outstanding, represented in person or by proxy.

Management's nominees for directors were presented by C. H. Murphy Jr., president of the Company. They are:

Bruce K. Brown
Charles E. Cowger
Dr. John W. Deming
Charles J. Hoke
F. B. Ingram
James R. Jones
The Rt. Rev. Christoph Keller Jr.
C. H. Murphy Jr.
William C. Nolan
J. A. O'Connor Jr.
Ralph Owen
David T. Searls

The Chairman's Statement

Mr. O'Connor made the following report to the stockholders:

Meeting here in 1970, at the start of a new decade, it seems appropriate to review some of the highlights of our progress in the 1960s, which we have just finished.

One sentence in Mr. Murphy's letter to the stockholders in the 1969 Annual Report provides me with my theme. That sentence is this:

"A decade's capital program, which has transformed the Company, has been carried out while steadily building working capital."

The stockholders of the Company met May 6, 1970 at the Fine Arts Center at El Dorado, Arkansas.

The gist of that declaration is twofold.

First, the expansion of the Company through equity financing when market conditions were favorable and the steady plow-back of earnings into exploration, development and marketing has created a broad new base for Murphy. Truly, our Company has undergone a transformation. Capital expenditures in the past 10 years totaled approximately $293,000,000.

Second, even while we were engaged in these endeavors, we steadily built working capital. Which means that we are today, at the start of the 1970s, in an excellent position to keep on growing.

Here are a few of the benchmarks to provide a perspective on the accomplishments of the past 10 years:

In 1960, total revenues were $94,000,000; in 1969, they were about $252,000,000, exceeding the quarter-billion-dollar mark for the first time.

In 1960, working capital at year-end amounted to $17,000,000; in 1969, it was $70,000,000.

In 1960, assets at year-end totaled $119,500,000; in 1969, they were $344,000,000.

In 1960, we produced 15,000 barrels per day of crude oil and gas liquids; in 1969, that production was 37,500 barrels per day.

In 1960, refinery inputs were 12,000 barrels and we had a refinery with a capacity of 15,000 barrels per day. Last year, the Company's refineries had inputs of 56,600 barrels per day with a capacity of 60,000 barrels per day.

Total refined products sold increased more than fourfold. In 1960, they amounted to 25,000 barrels per day; in 1969, they were 104,000 barrels per day.

Now, what were some of the things which contributed to that kind of robust growth? I'll touch on a few of the highlights.

In 1960, Spur Oil Company was merged into Murphy and Murco Petroleum Limited was chartered in the United Kingdom—both steps toward a well diversified and flexible system of petroleum supply and distribution.

"We are today, at the start of the 1970s, in an excellent position to keep on growing."

In 1961, Ingram Oil and Refining Company was merged into Murphy, adding the Meraux Refinery and strategically located terminals in the Southeast. We organized Svenska Murco in Sweden and consolidated producing and marketing operations in Canada into Murphy Oil Company Ltd.

All of our North American gasoline outlets in that year were converted to Spur brand gasoline and petroleum products.

We began exploration in Iran and the North Sea in 1963. A new and unique semi-submersible drilling barge developed in that year by our subsidiary Ocean Drilling & Exploration Company attracted interest at home and abroad by its performance.

And in 1963, we enunciated as a basic program the development of petroleum sources that are well diversified between the nearby but relatively small fields of North America and the more remote but larger fields of Venezuela and the Eastern Hemisphere, taking maximum advantage of low-cost water and pipeline transportation to link the whole with the Company's refining locations and growing markets.

In 1965, we discovered oil in the Sassan Field of the Persian Gulf, possibly the most important discovery in the Company's history. That same year, stockholders' equity exceeded one hundred million dollars and total assets were two hundred million dollars for the first time.

In 1966, ODECO began construction of drilling barges in Norway and Australia, and its growing fleet of offshore drilling barges operated at near capacity as exploration for oil shifted rapidly to the submerged shelves of the continents.

By then we could say that the Company's advances reflected the progress made in the full integration of our international oil business while maintaining major diversifications in timberlands through Deltic Farm & Timber Co., Inc. and offshore contract drilling through ODECO.

As further emphasis on such diversification, I am happy to announce that, after a lapse of 40 years, the enterprise has once again determined to engage in the manufacture of lumber. This morning, the Board of Directors will take final formal action to approve an appropriation to construct a sawmill in central Arkansas

"The enterprise has once again determined to engage in the manufacture of lumber."

to make better utilization of our Ouachita Mountain timberland which lies south of the Arkansas River along Highway 10.

The Annual Report for 1969 reports new records for gross revenues, crude oil and gas liquids production, crude oil and condensates refined, capital expenditures, working capital and dividends paid on the Common Stock.

ODECO and Deltic reported their best earnings ever.

At year-end, our cash and net working capital were the strongest in Murphy's history. Cash flow of $24,900,000 was an all-time high.

With those comments, I turn to the results for the first quarter of 1970.

Earnings were up. We report that with some satisfaction in view of flat or lower earnings results being reported by most competitors.

Earnings were $1,949,000, 36 cents a share, compared to $1,800,000, 33 cents a share, in the first quarter of 1969—up 8 percent. There was an extraordinary item of $395,000 this year, 9 cents a share, bringing total earnings for the quarter to 45 cents per share.

The Company did achieve a number of records for a first quarter.

- Gross revenue of $66,000,000 was 11 percent higher than a year earlier.

- Net crude oil production was 43,600 barrels a day. The marked increase in crude oil production is attributable to higher production rates in the Sassan Field than in the first quarter of 1969 and to production in Libya.

- Refinery runs were 58,000 barrels a day, up 10 percent.

- Finished product sales were 118,000 barrels a day, up 14 percent.

- Cash flow was a record $7,695,000, an increase of 19 percent.

As we enter the new decade, the condition of the Company is sound. I think all of our stockholders and those guests who attend these meetings regularly know that we do not engage in projections. Certainly, no one would be so daring as to make a prediction today with economic and world conditions in their present unsettled state.

"As we enter the new decade, the condition of the Company is sound."

However, management can assure you today that we are in excellent position to move forward and that we are maintaining a close watch of the conditions that will affect your business. We enter the '70s with confidence.

I now want to call on the president of the Company to speak to you about the environment in which the Company will operate in the 1970s.

Mr. Murphy.

The President's Statement

Mr. Murphy made the following report:

When I opened the written report to shareholders early this spring by saying, "Nineteen sixty-nine was an unrewarding year. Earnings declined and the petroleum industry's tax burden increased and its public image suffered," I didn't realize I was earning from *The Oil & Gas Journal* the accolade of aptly summing up for all oil companies an unsatisfactory year. And the man in Abe Lincoln's story who was tarred, feathered and ridden out of town on a rail summed up my reaction to the compliment when he said, "If it hadn't been for the honor of the thing, I had just as soon of walked."

We usually focus, as those of you who regularly attend these meetings know, the presentation on maps, charts, tables and comments that concern Murphy Oil Corporation's own business because, after all, you are here in your role as shareholders and not as citizens expecting to participate in a town meeting type of thing. However, two recent events so underscore the effect of public affairs on private business that this morning I do intend to drop the maps and charts in favor of dwelling on the milieu in which we operate and how we expect to fit into it through the decade of the '70s. Moreover, in view of the accelerating changes everywhere about us, I can imagine that you might wish to have an opportunity to focus attention on details of your own choice through questions, and we will provide time for that at the close of the meeting, after we have had the framework, as it were, held up before you.

One of the events to which I referred was the taking effect on January 1 of the Tax Reform Act. The other was rejection, a few weeks later, on grounds of amenities—meaning fear of pollution—

"Two recent events so underscore the effect of public affairs on private business . . ."

of our application to build a refinery on the Clyde estuary in Scotland. The first affected all the oil companies, indeed all the taxpayers, the second Murphy alone. It's a happenstance, though a handy one, that those events coincide with the beginning of a decade. That will make it easy for historians of the future to look back on that date as a watershed in the annals of oil. For while this Company and others will rapidly adjust—indeed are already well along in that process—to provisions of the Tax Reform Act, the ease with which statutory depletion was cut after 40 years of inviolability will attach a symbolic importance to the event far outweighing any tangible reduction in profits. And while, insofar as our Company's separate operations are concerned, we will be able to accommodate ourselves to frustration of our plans in Great Britain—indeed we are already well along in that process—symbolic importance of the rejection will be making itself felt long after the site itself is forgotten.

"That will make it easier for historians of the future to look back on that date as a watershed in the annals of oil."

This takes me back a full 20 years to 1950 when our shareholders—all eight of them—gathered to estimate the situation of that time, which was also a time of rapid change. We felt that the role of the American independent producer would decline in relative importance in the fuel economy of the world. But that, at the same time, application of U. S. spawned exploration techniques in geologic provinces around the world would bring about a proliferation of entirely new sources of oil, as well as rapid development of already known sources, such as the Middle East and Venezuela.

We sensed then that impending advances in communications and transportation would make it possible for a company of Murphy's resources to operate on a transocean, integrated basis. We felt that companies anticipating effect of those changes would assure for themselves a place at the table in the decades ahead. And conversely, the firms not understanding or choosing to ignore impending change did so at the peril of having to subsist on mere crumbs from the table, indeed if they were to survive at all.

Among the factors we now identify as we go into a new era is the discovery of big oil in the Arctic. Oil has long been expected there, but reserves of the magnitude discovered had not been fully anticipated. They are now a reality and they must be recognized as a major influence in the era into which we have just entered. Accordingly, I say this morning for the first time that Murphy Oil Company Ltd., our Canadian subsidiary, has negotiated in principle

an agreement to acquire a one-fourth interest in five million acres thought to be well located in the Arctic islands.

"Disappearance of virgin exploration territory on dry land . . . has made the Lower 48 a deficit area, and the trend is irreversible."

Another factor that must be noted is further diminution of inland virgin exploration territory in the "Lower 48" United States. The point has been made before, but I couple to it today the word "shortage." And, I do say in plain English that disappearance of virgin exploration territory on dry land combined with ever-mounting demand, has made the Lower 48 a deficit area, and the trend is irreversible. Pending actual arrival of Arctic oil in the marketplace—that now looks late rather than soon—and growth of demand meanwhile, it is inevitable that control of imports into the United States must be relaxed. I attempt no pontification concerning the manner in which controls will be eased. That is to say, I do not predict whether the 12.2-percent "allowable" east of the Rockies would be raised by some percentage points or whether there would be a conversion to the tariff system recommended by the majority report of the Cabinet task force on oil imports or whether the relaxation will be accomplished in some other manner or in some combination.

Broadly the effect on Murphy Oil Corporation's business would be much the same. That is, more of our overseas crude oil will be needed and will be allowed to be imported to serve our U. S. market.

Already upon us is a restoration of fuel oil within the U. S. to value in its own right, not merely as a by-product to the process of making gasoline. At the same time overseas, where fuel oil had never subsided to by-product status, demand relative to the top and the middle of the barrel is surging ahead. This is because energy demand everywhere has been underestimated, the time to install nuclear power generation plants is requiring as much as five years and the cost of servicing the first capital required for nuclear power is becoming unbearable. Finally, coal is under tightening stricture of air conservation measures. That means that fuel oil worldwide has taken on an entirely new emphasis.

You are aware of the demands to clean up exhaust emissions of automobiles—"get the lead out." Murphy Oil, of course, is one of forty or so companies that the Secretary of Health, Education and Welfare has asked to submit views concerning the timing of lead removal and the number and types of grades of motor fuel that would be offered. We believe that since the problem lies in what comes out of the exhaust, concern should be centered there and not

unduly on the fuel which goes into the engine. Nevertheless, lead, like depletion, has become a symbol, and we are making plans to reduce or eliminate the lead content of our gasolines in keeping with requirements of the new generation of automobiles as they appear on the streets and highways.

I might interject here that you will find us and the industry in the new and uncomfortable position of at least acquiescing in and probably recommending Federal standards in this case. Otherwise, there would be a hopeless patchwork of local regulations imposed by metropolitan areas such as Los Angeles, and it would be impossible to have the systems approach which is required—that is the fuel and the engine taken together constitute the motive systems.

In our case, refining capacity probably will be enlarged as we prepare for this, but with more emphasis on residual fuel because of its importance that I just mentioned. And, that means that the capital requirements per daily barrel of capacity would be somewhat less than the refineries that we have constructed or added to in the past. Even so, we estimate our own capital requirement in the early '70s for new processes related to a lower lead content gasoline to be at least $12 million, rising to perhaps $25 million later if lead must be completely removed.

Then we have the accented importance of oil and gas on continental shelves around the world. This Company has been a leader since the early '50s in offshore exploration and development.

We first thought that the search for oil on submerged shelves of the continents would be so costly and so fraught with risk that it would be best pursued by extension of known production provinces onto the shelves. That is, that the occurrence of petroleum would have to be proven on land and then extended into the sea.

That has changed.

Although the costs of offshore exploration have not gone down, its effectiveness has been dramatically improved while good opportunities on land were fast disappearing. Continental shelves everywhere are undergoing and—for at least ten years, we believe, will undergo—most intensive exploration and development, quite independently of any landward indications. Accordingly, even though temporary employment problems may appear, ODECO, our affiliate for that activity, has just moved to increase its drilling fleet by

"This Company has been a leader since the early '50s in offshore exploration and development."

25 percent in agreeing to acquire three existing barges and one under construction from affiliates of Husky Oil Limited. And that, taken with a barge under construction in Japan, Ocean Prospector, will amount to over a 30-percent increase in the fleet by the beginning of 1971.

We staked an early claim on this type of activity, and as a result, over 50 percent of the crude oil production by the enterprise is now offshore.

Our New Orleans refinery is oriented to Louisiana offshore crude as a source of raw material. Sixty percent or so of our drilling fleet is employed in the Gulf of Mexico. You can see, I believe, that any interruption or prolonged suspension of activities there would be a matter of great seriousness to us.

We are therefore very much concerned with the action of Secretary Hickel in suspending lease sales and in selectively shutting down operations of some of our neighbors. I think we should report to the stockholders that Mr. Charles J. Hoke, the senior vice president and director responsible broadly for that kind of activity in our Company, asked to be recognized at our most recent Board meeting and informed the Board that he had taken steps satisfactory to himself to assure that every well we operate either has a storm choke in place or has written dispensation to do away with it from the USGS and further that our operating organization in New Orleans had importuned the operator in each case where others operate for us that we expect the same of them. I interject this because of the headlines this morning that one fine company, likewise a leader in offshore operations, has suffered the indignity of having been indicted by a grand jury for violations of rules offshore.

"Japan has emerged as a third force in the free world economy."

Japan has emerged as a third force in the free world economy. We must anticipate that the effect of this event will be as profound as was the resurgence of Europe as a second economic force after World War II. Development of a huge market in the Far East spreads the demand for oil much more evenly over the world. Coupled with a need to match crude oils to yield patterns peculiar to markets around the world, this means, in the era ahead, that we will be dealing with a free form of logistics, as it were, as distinguished from clearly marked channels of trade that have been the pattern up until now.

All of this, you readily perceive, must be viewed against demands of ever more vocal populations. At the moment, to return to our theme at the beginning, the popular manifestation of these rising expectations and demands is for clean air and clear water. These demands will be met. This means that we will find, and are already finding, governments everywhere responsive to them.

"Demands . . . for clean air and clear water . . . will be met."

Murphy Oil Corporation has tried, we think successfully, to always take into foremost consideration the welfare of the communities and neighbors wherever we do business. We like to think we've done much more than was legally required. Even so, it's now apparent that we, and all other industrial firms, must do more or risk losing the right to do much of the business at a profit to our shareholders, to the service of our customers and to the well-being of our employees. But, we can't allow ourselves to be panicked into doing silly things or stockholders will no longer trust your capital to us and the very public which is demanding cleaner air and clearer water will rebel when it sees cost appear in the price of gasoline and other products.

But it follows that the petroleum industry and Murphy Oil Corporation will be faced with higher taxes to defray the public sector's share of the cost of meeting these demands. It means that capital and operating expenses will rise as we and other companies defray our part of the cost of a cleaner environment and that prices will rise as consumers are asked to pay their share when part, not all, of the cost is reflected in the marketplace. To the extent that something new, different and desirable is provided, this is not inflation.

Finally, it portends stricter regulation. Additional controls will be invoked. Standards will be imposed. We understand the forces inducing them. The words "understand" and "agree" are not synonyms. Whether one agrees with what one sees developing is quite beside the point. We do understand it. And, in Murphy Oil Corporation, we propose not to exhaust our energies in struggling against the inevitable.

On the contrary, we will turn with a will to adapting to these changes, not merely to adjust after the events, but indeed to benefit from them where possible. The entire purpose of which will be to improve Murphy Oil Corporation's position relative to the competition, and it is only the relative position that counts.

I thank you very much, ladies and gentlemen. My colleagues and I will be glad to answer any questions that you care to put to us.

Questions from the Floor

The Situation in Libya

Q. *What is the outlook in Libya?*

A. Well, we are all under considerable pressure from the new government, the revolutionary government there, and we have been called in to discuss raising the posted price. And because the market price is lower and will not go up, that in effect means the taxes would be increased if we agreed to an increase in the posted price. So far, our Company and the group of which we are a part have not agreed to an increase in the price. We understand that the other operators have not yet agreed to an increase in price. Threatening statements are being made by the government. They sound no worse and no better than those usually made when we reach this stage in negotiations with a host government. I rather think that some increase in Libyan taxes must be expected. I think it will be fairly moderate. I understand that Emory Clark, at the Clark meeting yesterday, was asked a similar question, and I parrot him exactly. He said, "Well, they don't have anything but sand and oil, and they can't sell the sand." That sums it up.

"Some increase in Libyan taxes must be expected."

Exploration in New Zealand

Q. *What is the status of the Company's exploration activities in the New Zealand area?*

A. We got a black eye with our first well between the North and South Islands of New Zealand. We have a large concession there, several million acres, and we got rather excited about the possibilities, because a discovery was made about 40 miles to the north. And we have structures on trend with that discovery. That shortened the odds that we had something quite attractive. So we hastened to drill a well on the most obvious location. That well did not have the productive section in the offset acreage, and we were quite disappointed. Now, there are many, many structures on the concession. Another well will be drilled this year. We have exchanged information with the operators of the adjacent properties, and all of the data there are being examined. I think we will soon be in a

position to become more purposeful in following up the prospects there. But I must not avoid leaving the impression that we were very disappointed in the first well.

"If we can find oil in any great quantity there, we could simply move the crude right to our New Orleans refinery."

Smackover Drilling

Q. *How about the program in Mississippi and Alabama, the Smackover play?*

A. It remains the most promising inland activity that we have going on or have had going on for a long time.

The Smackover is a well known and prolific producing horizon. It's now been proven for massive reserves in south Mississippi. Our geological organization saw this coming some years ago and got itself established there with acreage at reasonable prices. And by now we have ten or twelve well defined geophysical prospects mapped out. They just drilled one that was dry and are moving immediately on to another. Those are all Murphy operated. We are trying to drill a well jointly with Shell near where we drilled a very expensive dry hole last year. That well got down almost to twenty thousand feet and was beginning to have some indications of high pressure and the kind of troubles that had just caused a very disastrous blow-out near Jackson, which you may have read about in the papers. As a result, caution got the better part of courage and we cemented the bottom of that hole in order to take a look at the drilling procedures. That has all been done, and we are now going to try to get back to the bottom, to get that well on down to the Smackover. That one has to be recognized as a very, very likely and active prospect. And then I would describe the others, taken together, as an exciting exploration affair. Aside from the geological attraction, we chose that area because it's free of market demand proration. And if we can find oil in any great quantity there, we could simply move the crude right to our New Orleans refinery, a rather handy thing.

European Refinery

Q. *What alternatives are you considering for the loss of the Clyde refinery site?*

A. They are several.

We have ourselves initiated approaches to companies having refineries lending themselves to expansion, looking for participation

with them. In other cases, refiners so situated have approached us, asking if we would like to negotiate with them concerning an entry into their plants. Those things are being pursued.

We also are discussing extension of our two processing agreements, one in the Mediterranean and one at Rotterdam.

Then finally, we have in the computers all of the new data and new ideas that come about from lower ocean transportation cost and shifting of demand mentioned earlier. Some rather odd conclusions could easily come from a study such as that. It's a long shot, but there is a possibility that a site exists somewhere in the North Atlantic that could serve both Canada and Europe and which could also serve the import demand for residual fuel on the East Coast of the United States. I say that's a long shot, but it is getting intense study by a special task force here in El Dorado to assure we will not overlook anything.

"On the Gulf Coast, there is some surplus capacity, but not very much as a percentage of nationwide capacity."

Texas and Louisiana

Q. *What do you expect from exploration in Texas and Louisiana? What course do you expect it to take now that the Lower 48 is a true deficit area?*

A. I think the bounds will have to be loosened. As a matter of fact, other than on the Gulf Coast, there are only about six big fields not producing at capacity under the present formulas applied by regulatory commissions. Those range from Yates Pool in far west Texas, generally across Texas and into Louisiana, ending up in our own Delhi Field in north Louisiana. And, other than those, there is no excess capacity of any magnitude at all. On the Gulf Coast, there is some surplus capacity, but not very much as a percentage of nationwide capacity.

I think that in both states you will see, other than seasonal cuts such as just ordered, a loosening under the present method until this shortage becomes even more apparent. And at that point, there will have to be a revision in the method itself allowing the big fields to come on up to capacity: Yates Pool, Texas, Delhi and the like.

I know I must sound like a prophet of doom for the inland producing industry, but I am fearful—and it is no more than an instinct—even those big fields may be somewhat overrated in terms of excess producing capacity.

So neither commercially nor militarily do we have the security that we thought we had. That is why we have to go to the Arctic islands and far offshore. And it's time we simply must bring in more oil from overseas. We need to be currying the favor of Canada and of the host governments overseas rather than alienating them with all of these statements that we can't depend on them at all. I would like to see our country invoke the honor system relative to this, "Oh, we are depending on you now." Rather than saying, "Well, we know we can't depend on you." I think that psychology is wrong for the welfare of our country.

"Neither commercially nor militarily do we have the security that we thought we had . . . We simply must bring in more oil."

Capital Requirements

Q. *Could you give us an idea of what your capital requirements in exploration look like this year, including or excluding the acquisition of Rimrock Tidelands?*

A. Jim Jones, can you help me?

Mr. Jones: Yes, sir, it will be about $61 million. That, at least, is what the budget shows. The budget is getting a hard look right now because of the Rimrock possibilities and so forth. Almost half of that would be exploration, about a third of it was in the contract-drilling area and the rest spread throughout the marketing and manufacturing branches of the Company.

Mr. Murphy: Yes, but Jim, that part of contract drilling that was in the budget before Rimrock Tidelands was probably cancelled or deferred into future years, was it not?

Mr. Jones: Right. Rimrock will substitute for a lot of that.

Mr. Murphy: Right. So I think you would have to take $61 million, add "X" to it and then deduct 10 or so.

And then further, that number included a fairly hefty commitment for offshore lease sales, and they have not come about yet.

Q. *The next question is kind of obvious. Where is it all coming from?*

A. Oh, it's in the bank, and from cash flow. There is no financing in it—other than insofar as Rimrock Tidelands goes. That company had a big part of its fleet financed, and as I under-

stand the transaction, which was negotiated in Calgary and New Orleans, ODECO would simply take over their debt. But, that is already set.

Otherwise, again, we have the combination of high and rising cash flow and working capital that we have accumulated which should cover the requirements.

"The public isn't going to permit a situation wherein the oil is available there, badly needed here but kept out artificially."

Shortage of Oil Production

Q. *If there really is a lack of producing capacity relative to demand, what would be the effect if imports are not increased?*

A. I think there would be a shortage of oil within two years.

But of course, it is unlikely that would happen because the oil is readily available overseas. And the public isn't going to permit a situation wherein the oil is available there, badly needed here but kept out artificially. I am trying to deal with the fundamentals as we plot our strategy for the decade ahead.

I would underscore the obvious: We are calling these things as we see them, not as we wish them to be.

We only wish there were tremendous oil fields yet to be found right here in Union County, Arkansas but wishing wouldn't make it so.

North Sea

Q. *What is the position of Murphy and ODECO in the North Sea?*

A. ODECO and the parent Company jointly made a gas discovery in Norwegian waters quite near the median with Scotland.

We have done a lot of work on it, and so far we have not been able to determine that the amount of gas that we see proven at that spot, in such a remote location, could be readily translated into a commercial affair.

But we do have more drilling to do to determine if more gas is there.

Moreover, the Phillips group has announced a major discovery, an oil discovery, in what they termed "thick pays" fairly nearby. By near in the North Sea, we mean forty or fifty miles.

We are combing all of our data to see if there are drilling prospects for that same type of thing. We don't have any answer to that yet, but it certainly puts a blush of optimism on the northern sector of the North Sea. And of course, we are awfully glad to have it.

Offshore Texas

Q. *What does Texas offshore look like to us now?*

A. Well, Mr. Hoke might wish to correct me, but I don't think we are very optimistic, either as a result of our own drilling or what we have seen the neighbors do there.

Q. *You are marketing the gas?*

A. Yes, we are selling gas from two wells. We made a discovery and then confirmed the discovery with a stepout, and we are selling gas from that discovery.

But we haven't made a second discovery. I think that we have some extension prospects, where wells of others to which we have contributed have given indication.

And we probably will have some more gas and condensate there, but I am afraid the prospect of any huge increment to reserves has dwindled.

South Africa

Q. *Do you think you will get a well drilled in South Africa this year, or will that come in 1971?*

A. I think Mr. Hoke can answer that one.

Mr. Hoke: It is likely to be in the very latter part of this year. The rig is down there, and it will be available depending on contract availability. But it is anticipated some time this year.

Mr. Murphy: Ladies and gentlemen, we thank you very much for your active participation.

I will turn the meeting back to the chairman.

Conclusion

Mr. O'Connor recognized delegations of students and faculty members from Arkansas AM&N College at Pine Bluff, Arkansas Polytechnic College at Russellville, Grambling College at Grambling, Louisiana, Louisiana Polytechnic Institute at Ruston, Southern State College at Magnolia, Arkansas and El Dorado High School who attended the meeting as guests of the Company.

Jerry W. Watkins, secretary of the Company, announced that the 3,644,866 shares represented at the meeting had been voted in favor of election of the management's nominees for directors, and Mr. O'Connor declared the slate elected.

There being no further business, the meeting was adjourned.

Board Action

The Board of Directors re-elected all officers of the Company, including C. H. Murphy Jr., president; J. A. O'Connor Jr., chairman of the Board; Charles J. Hoke and Charles E. Cowger, senior vice presidents; John L. Solomon, Paul C. Bilger and Ben S. Smith Jr., vice presidents; James R. Jones, controller; L. R. Beasley, treasurer, and Jerry W. Watkins, secretary.

The Board declared quarterly dividends of 15 cents a share on the Common Stock of the Company, $1.56¼ a share on the Cumulative Preferred Stock, Series A and $1.30 a share on the Cumulative Preference Stock, 5.20% Series. The dividends were ordered paid June 1, 1970 to stockholders of record May 18, 1970.

CONSOLIDATED STATEMENT OF INCOME

	Quarter Ended March 31, 1970	1969
SALES AND OPERATING REVENUES	$66,158,000	59,709,000
COSTS AND DEDUCTIONS		
Crude oil, products and operating expenses	46,751,000	43,675,000
Exploration expenses	2,588,000	1,840,000
Selling and general expenses	5,060,000	4,300,000
Depreciation and depletion	3,849,000	3,462,000
Taxes other than income taxes	1,029,000	949,000
Interest expense	1,840,000	1,452,000
Federal and state income taxes	793,000	694,000
Foreign income taxes	1,455,000	773,000
Minority interests' income	844,000	764,000
Total costs and deductions	64,209,000	57,909,000
INCOME BEFORE EXTRAORDINARY ITEMS	1,949,000	1,800,000
Extraordinary items less income taxes:		
Reduction in crude cost due to additional import quota for 1968 and 1969	395,000	—
Gain on sale of property	—	468,000
NET INCOME	$ 2,344,000	2,268,000
Per Common and Common equivalent share:		
Income before extraordinary items	$ 0.36	0.33
Net income	0.45	0.43
Weighted average number of Common and Common equivalent shares outstanding	4,546,020	4,640,607

The above interim statement is based in some respects on estimates subject to year-end adjustments. Such statement has not been examined by independent accountants.

OPERATING SUMMARY

	Quarter Ended March 31, 1970	1969
Net crude oil and natural gas liquids produced—barrels a day	43,606	30,932
Net natural gas produced—thousands of cubic feet a day	59,526	60,361
Refinery crude runs—barrels a day	57,644	52,595
Finished petroleum products sold—barrels a day	117,679	103,222

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